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*Forstrong Global Asset Management Inc.***Key Takeaways**

- Global market action has shifted. The bull market is broadening out from the Mag 7 and gaining in strength internationally.
- This trend should continue for the simple reason that incoming macro data will be supportive: 2024 will not witness a hard or even soft-landing, but another year of no-landing.
- Undemanding earnings expectations and better valuations in international stock markets offer excellent places for investors to lighten up on past winners and rotate into positions with better return prospects.

Ask Forstrong: Are we seeing the beginning of a rotation away from the Mag 7 to other investment classes?

“Anything that you could possibly want,” Noel Gallagher once said, describing life as a rock star, “you got two of.” You wouldn’t know it by consuming the negative headlines today, but this is a fitting description for the state of the US economy: investors have been spoiled with incoming data. The recession that the Bloomberg consensus forecasted with 100% certainty for 2023 did not happen and will not happen in 2024. Inflation has fallen and Jerome Powell now sees interest rate cuts on the horizon. The frenzied period of technology spending during the pandemic has pushed productivity higher, accelerating for the last five quarters in a row. Labour markets are ripping, with the unemployment rate below 4% for 25 months straight (you would have to look back to the late-1960s to find another period when it was this low for this long).

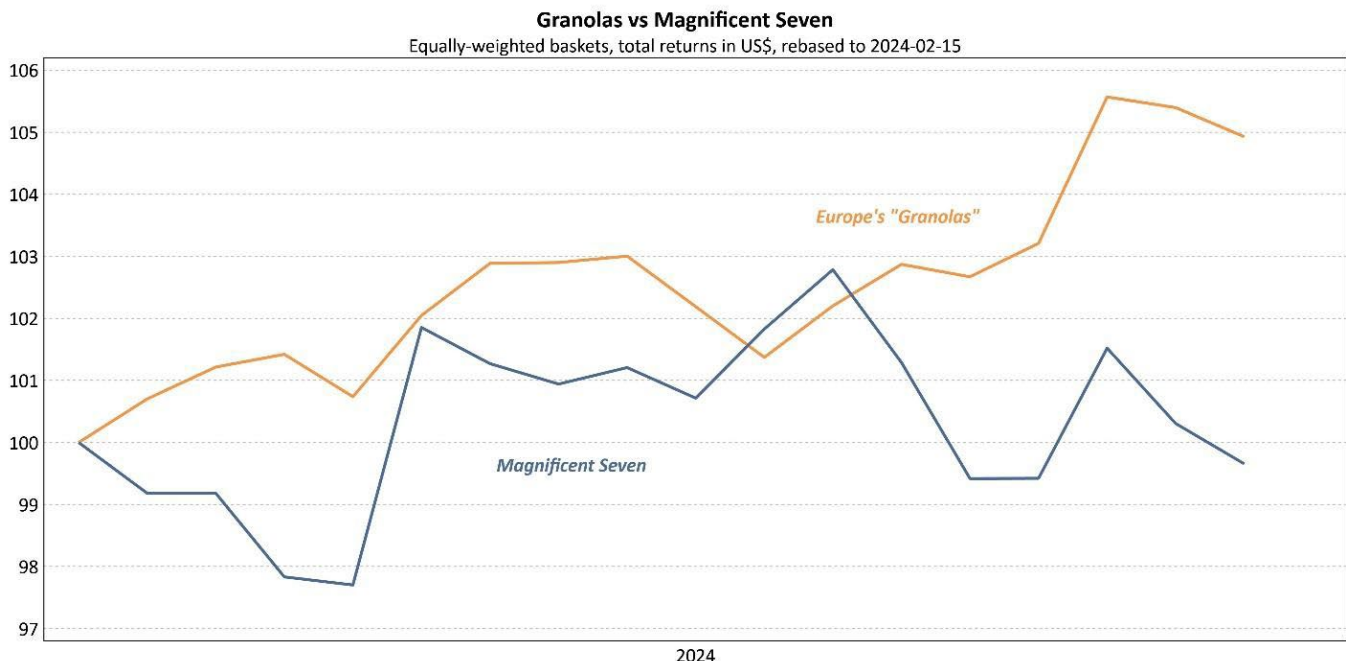
Then, add in the excitement for AI-enabling semiconductor stocks — and, who could forget, Taylor Swift’s boyfriend winning the Super Bowl last month — and there should be no doubt that this is a rockstar economy.

Of course, not everything is rocking in America. Commercial real estate remains in recession. The potential for further pain in areas not fully adjusted to higher interest rates still exists. Many companies face a debt maturity wall. Refinancing will squeeze

profits. Performance for the Magnificent 7 is no longer churning higher as a cohesive unit as they were in 2021. Recent wobbles in Nvidia indicate that some investors no longer believe that the company’s dominance in AI chips will last forever. And, not to lose sight of politics, one of two cognitively-impaired presidential candidates will likely be leading the nation next year (ok, one has 91 fewer felonies). But while both candidates are running on very different policy platforms, the common ground is anti-China and protectionism, which is inherently inflationary and not good news for America’s technology behemoths.

All of this presents headwinds for higher asset prices in America. But global market action has

also shifted. The US bull market has broadened out from the Mag 7 and is gaining in strength internationally. This is happening both inside and outside of America. Within US markets, beaten-up small and mid-caps are perking up. Cyclical sectors are starting to outperform defensive ones (i.e. financials over utilities and industrials over staples). Globally, many major stock markets have handily outperformed the US over the last six months (notably Japan, India and Taiwan), with many others breaking out into bull market territory. There is even a new acronym for a group of high-flying Eurozone stocks (the “Granolas” — google it) that is recently outperforming the Mag 7. Even gold has broken out to new highs.



Granolas: GSK, Roche, ASML, Nestlé, Novartis, Novo Nordisk, L'Oréal LVMH, AstraZeneca, SAP, Sanofi.

Sources: Macrobond, Forstrong Global Asset Management

The key question is whether this is the start of a longer-running trend. This publication believes it is. Why? Simply because the underlying macro backdrop supports it. Many investors were thrown off over the last few years by pandemic distortions, fruitlessly attempting to fit a traditional business cycle framework on current conditions. It has been anything but that. Traditional signals like inverted yield curves, leading economic indicators turning down or the massive rotation in consumer spending from goods to services exaggerated the danger of recession and were highly misleading.

Our investment team pushed back against recession calls with the simple observation that sharp economic slowdowns occur when households and businesses get caught out over their skis and are forced to cut back quickly (including employment declines), triggering a self-reinforcing dynamic and a reflexive recessionary process. How does this occur when the world has spent the last 24 months in pre-recession? It's difficult to get hurt jumping out of the basement window.

The recovery that started in America is now spreading around the world. World economic activity is firming, led by a liftoff in global trade, with manufacturing activity now primed to rebound strongly. One does not need to look far to witness this. Across the Pacific, India, [now deep into a critical infrastructure boom](#), has

solidly overtaken China as the world's fastest-growing major economy (see "[India Awakes](#)" in our 2024 Super Trends report). GDP released last week shows growth accelerating to 8.4% for the fourth quarter of calendar 2023. This follows three consecutive quarters of growth above 8% — at a time of tight monetary policy at home and weak demand abroad, with trade hit by shipping delays in the Red Sea.

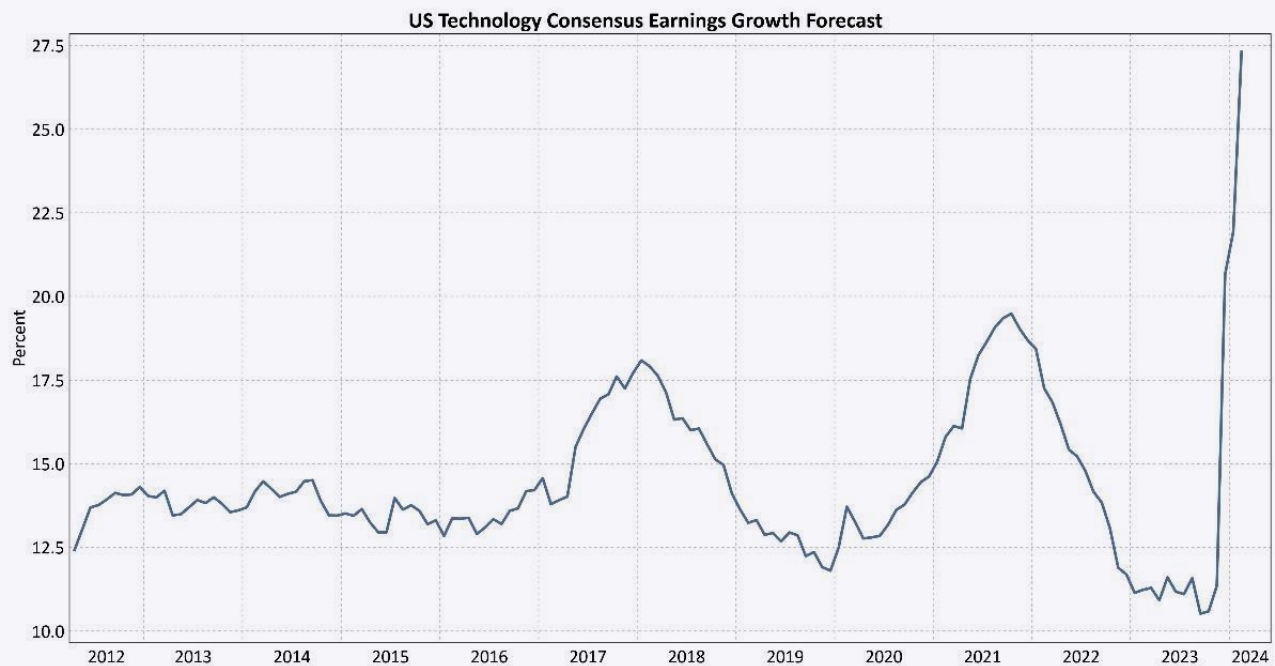
Even in Europe, incoming data points to a re-acceleration in economic activity. While last year witnessed another year of disappointingly weak growth, the fundamentals supporting the economy are solid. Labour markets remain robust. Consumers have shrugged off higher rates and wages are outpacing inflation. And, most importantly, corporate profits are steadily marching higher.

In short, the macro story of 2024 is not a soft-landing but another year of no-landing. This strength has caught many by surprise. And it is the exact reason why market rallies should continue to broaden and grind higher this year. Investors have been too cautious in their economic outlook and markets are now climbing that classic "wall of worry". Readers should not forget that the main market trend last year was the rush into cash (a record \$1.3 trillion went into global money market funds). The unwinding of this extreme risk aversion will take time.

Investment Implications

Markets are now at a crossroads. The mega-cap US growth stocks continue to trade at rich premiums to other assets based on their “winner-takes-all” business models. Recent earnings reports have supported this view. Yet investors have not been this optimistic on the long-term outlook for earnings in the aggregate tech sector since 1999’s dot-com

bubble. Of course, there are key differences between then and now. But the bar is now extremely high to deliver on future earnings, leaving ample room for disappointments. At the least, a consolidation phase of the AI hype seems highly likely here (Sam Altman asking for \$7 trillion in capex spending may have been the proverbial bell that was rung).



Sources: Macrobond, MSCI, Forstrong Global Asset Management

By contrast, undemanding earnings expectations and better valuations in international stock markets offer excellent places for investors to lighten up on past winners and rotate into positions with

higher return prospects. Our investment team is finding plenty of value outside North America. High beta economies like Sweden and commodity-exporting economies in South America are benefitting from higher global

growth. Countries where wages are low, populations are young and relatively skilled — such as Vietnam, Indonesia, and Mexico — are benefitting enormously from supply-chain diversification. These are big themes that will take years to play out. That means active management will be crucial to capture the pockets of opportunities within countries, sectors and themes. Forstrong's family of ETFs offer targeted exposures here: [Global ex-North America equities](#) (TSX: FINE) and [Emerging Market equities](#) (TSX: FEME).

Looking ahead, investors could continue to chase US tech stocks. Yet the previous decade's winners 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 low returns. With the bull market broadening and investment leadership shifting, the time has come to diversify.

Tyler Mordy, March 2024