FORSTRONG
GLOBAL

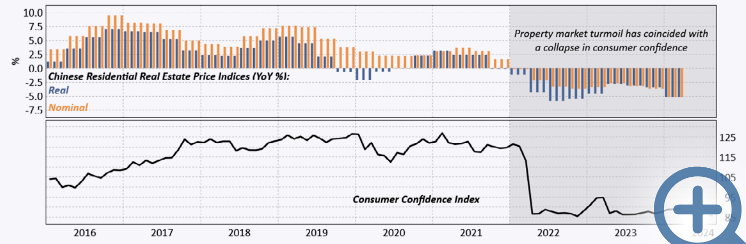
STRATEGY DASHBOARD:
Q4 - OCTOBER 2024

CONFIDENCE BOOST

Chinese policymakers have at long last reached their pain point. A coordinated blitz of stimulus announcements were made by numerous government agencies in late-September. These ranged from well-articulated, to purposely vague, to completely opaque in nature. Investors did not wait for further elaboration, with the MSCI China Index rallying over 33% (in $CAD terms) in the two weeks following the initial communication from the People's Bank of China (PBoC). Now that the "shock and awe" phase has subsided, we can catch our breath and examine what this policy pivot means for both the Chinese and global economies, and what investment implications can be drawn.

For starters, it's helpful to review how we got to this point. A series of government crackdowns on domestic industries, combined with much more restrictive and longer-lasting COVID public health measures than almost any other nation, have taken a significant toll on the economy. Per the chart below, the focal point has been the Chinese property sector, which has been reeling for several years since a campaign against excessive borrowing brought major developers to the brink of bankruptcy. The property slump has weighed on aggregate wealth, with housing being the prized asset in many Chinese households. The string of self-inflicted economic wounds has badly damaged confidence in China for consumers and businesses alike.

Until recently, Chinese policymakers had opted for marginal "tweaks" instead of meaningful stimulus implementations. Hopes were that the economy would stabilize without re-incentivizing the same type of debt-fueled speculative behaviour that led to crackdowns in the first place. But with deflationary pressures mounting and growth faltering, the government has clearly become concerned about a self-reinforcing downward cycle. That does not mean that caution is now being thrown to the wind. The desire to discourage speculation and avoid a boom/bust cycle remain and will shape the target and composition of forthcoming fiscal stimulus initiatives.



Sources: Macrobond, BIS, CEMAC, Forstrong Global Asset Management

While the lack of concrete details on a fiscal package have stolen the headlines recently and put a halt to the rally in Chinese stocks, the signal from the government remains clear. Cuts have been made to multiple key interest rates and the banking reserve requirement ratio (RRR). Measures to directly support the property and stock markets include the implementation (or announcement) of a mortgage rate cut, down payment ratio relaxations, swap facilities, a possible stock stabilization fund and a relending program to encourage share buybacks. Bank recapitalization plans and a debt ceiling increase for cash-strapped local governments are also in the works. The list goes on. The multi-faceted, multi-agency onslaught clearly demonstrates a sea change coming from the highest level of government.

But this will not be a repeat of the infrastructure spending binge that catapulted China's economy out of the Global Financial Crisis in 2008-2009. Therefore, the asset classes and segments of the economy that perform strongly are likely to differ from that period. This time around, we see considerable upside stemming from a recovery in Chinese consumer demand for goods and services, as confidence slowly returns to the market after a prolonged period of excess saving. While a domestic consumption upturn would not supercharge demand for raw materials (à la 2008-2009), it would still carry a pro-cyclical global growth impulse. Having the world's second largest economy and consumer market on more solid footing should help the current global expansion broaden out. This means that foreign investors still weary of investing in China should enjoy firming corporate earnings in pro-cyclical sectors outside of the nation as well.

GLOBAL STRATEGY OVERVIEW

CASH

Continued rate cuts from the Bank of Canada have reduced the attractiveness of holding cash. However, cash remains a viable portfolio hedge against equity risk, particularly as long-term bonds have an unfavourable risk/reward profile. Cash has been kept below benchmark in client portfolios, but has been increased this quarter.

BONDS

Corporate bonds in most markets are trading on tight spreads (relative to history) versus government bonds. However, spreads should be supported by solid economic underpinnings, improving liquidity conditions and a likely boost to risk appetite. We remain overweight corporate bond exposure in the US and emerging markets this quarter.

EQUITIES

The initiation of the Fed rate cutting cycle and meaningful monetary and fiscal stimulus in China should provide a boost to growth and investor sentiment. We expect the equity rally to broaden out across countries and sectors; supported by improving corporate earnings. Equity exposure is overweight and has been increased modestly in client portfolios.

OPPORTUNITIES

Fed rate cuts may be doubly-beneficial for gold miners; lowering the opportunity cost of owning gold and loosening corporate financial conditions simultaneously. Relatively sticky inflation and the potential for downwards pressure on the trade-weighted US dollar would be a positive environment for gold prices. Gold mining stocks have been initiated in balanced strategies and added to in growth strategies this quarter.

FORSTRONG STRATEGIES	INCEPTION DATE	1 MONTH	YTD	1 YEAR	3 YEAR	5 YEAR	10 YEARS	SINCE INCEPTION
BALANCED								
Global Income	30/06/08	1.54%	8.61%	14.88%	3.44%	4.29%	5.69%	7.21%
Global Balanced	30/06/03	2.30%	10.52%	16.72%	3.99%	6.52%	7.12%	7.05%
Global Growth	30/06/03	2.16%	13.48%	21.24%	5.41%	8.68%	8.66%	8.29%
Canadian Income	30/06/08	2.03%	8.25%	14.79%	3.50%	4.38%	5.01%	6.24%
Canadian Balanced	30/06/03	2.62%	10.16%	16.55%	4.86%	6.79%	6.63%	7.11%
Canadian Growth	30/06/03	2.72%	13.22%	20.77%	5.92%	8.61%	7.81%	8.14%
GLOBAL EQUITY								
Emerging Markets Equity	31/01/19	5.51%	11.98%	15.49%	1.29%	4.45%	-	3.55%
Global Ex-North America Equity	31/12/19	2.27%	12.44%	20.07%	4.46%	-	-	5.83%
ALTERNATIVE INCOME								
High Income Opportunities	30/06/22	1.57%	6.88%	13.56%	-	-	-	11.70%

* Performance as of September 30th, 2024
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