FORSTRONG GLOBAL

STRATEGY DASHBOARD: REBALANCE SUMMARY Q1 2024

In the mid-1990s, Britain's Prime Minister John Major reportedly asked the Russian President Boris Yeltsin to describe his economy in one word. Yeltsin responded, "Good." Seeking more detail, Major asked Yeltsin if he could describe it in two words. Yeltsin replied, "Not good."

It is tempting to give a similar assessment of the state of the world. US markets are hitting new highs but narrowly supported by the "Magnificent 7" stocks. American CEOs are bullish on their own companies but gloomy about the broader economic outlook. Labour markets are slowing but still secularly tight. China's growth is finally surprising on the upside but household and business confidence hover near record low levels.

The list of contradictions goes on. And this has fueled persistent market pessimism, with commentators practically falling over themselves to coin the latest apocalyptic neologism. In Davos earlier this year, "polycrisis" was the word cited most frequently — which ostensibly replaces the "tripledemic" we went through and may yet form an entirely new word with "permacrisis" (Collins dictionary word of the year in 2022).

Whatever the word, consider that this cluster of contrast and crisis extends a long narrative that dates back to 2008. The decade of the 2010s was indeed a period of rolling crises and "new normals" and was very different than the mid-2000s, where central bankers boasted of a "Great Moderation" in economic and inflation variability. More recently, the pandemic was a hinge moment in history. And, in many ways, it is still with us. Investors may forget that the current business cycle is anything but a natural one. Economic shutdowns and re-openings were fully coordinated by government, rather than market forces. But because different nations opened at different times and with different velocity, the world economy remains highly de-synchronized.

This is new territory. Ever since globalization gathered pace in the early 2000s, world trade and business cycles had become far more correlated, not less. In some ways, the global economy is similar to the period after World War II: lingering distortions with deep labour shortages, chronic government spending and a fragmented world.

As we look into 2024, our investment team remains focused on the most durable macro trends (watch for our annual "Super Trends" 2024 investment outlook, arriving in your inbox next week). Lately, we have set our sights on 3 key macro themes: ongoing government spending, structural inflation (a world where 2% is not the ceiling but the floor) and the broader "revenge of the real economy". Most of the incoming data still supports these themes.

Yet, markets in 2023 have been busily pricing in a return to the macro trends of the 2010s. Tech stocks have rebounded strongly this year. Market-derived and survey-based expectations both show a strong consensus expect lower short rates next year, with bonds predicted to be the best performing asset class. This investor groupthink creates a sizable opportunity for differentiated views to outperform. In one word, we would describe this set up as "Good".

CASH AND CURRENCIES

Cash levels held near neutral

- Most major central banks are likely at or very near peak interest rates.
- Historically, long-term returns for stocks and bonds are strongly positive in the years following terminal rate hikes.
- We remain near fully invested with cash at neutral levels in client portfolios.

GLOBAL EQUITIES

Staying overweight equities

- A resilient US economy and green shoots of recovery emerging in China should bode well for global growth in 2024.
- Despite a handful of pockets of overvaluation, most equity markets remain reasonably priced despite this constructive economic backdrop.
- We remain overweight equity exposure this quarter.

Increasing Japanese equity exposure

- Industrially-oriented Japanese equity indices are highly competitive with the yen at depressed levels.
- Add that valuations are undemanding, monetary policy remains highly accommodative (an anomaly amongst major global central banks) and shareholder-friendly reforms are being forcefully promoted by policymakers, and the bull case for Japanese stocks is compelling.
- We have increased exposure to dividend-paying Japanese small cap equities in balanced and growth-oriented strategies.

GLOBAL FIXED INCOME

Fixed income remains underweight

- Bonds have become a consensus overweight, as financial markets expect aggressive rate cuts in 2024.
- While the outlook has improved, we believe markets are getting ahead of themselves, as inflation is likely to prove “sticky” and central banks will need to proceed with caution.
- Fixed income exposure has been kept underweight in client portfolios.

Keeping duration short

- A sharp sell-off in developed market bonds last quarter briefly pushed yields up to a level where extending duration began to look attractive.
- Unfortunately, as the US 10 year treasury bond yield breached the 5% level, a reversal ensued almost immediately, pushing the yield back down to near 4%.
- With this recent re-inversion of yield curves, we find no convincing argument to extend duration in client portfolios.

OPPORTUNITY INVESTMENT HIGHLIGHTS

Adding gold miner equity exposure

- Gold prices have surged anew recently as expectations of peak interest rates (nominal and real) and a falling US dollar have added to an investment case supported by a wave of central bank buying and geopolitical flare-ups.
- However, gold mining equities have struggled to keep pace as rising labour, material and transportation costs have eaten into profit margins and financing conditions have tightened materially.
- We have initiated a position in gold mining equities in growth-oriented strategies this quarter.

Pivoting to the Chinese consumer

- We continue to expect the largest opportunity in Chinese equity markets to be in the consumer sector, as the historically high savings of households supports spending as confidence slowly begins to rebuild.
- Chinese internet companies should thrive, given their direct exposure to domestic consumer demand, already strong earnings momentum, fading regulatory hostilities and attractive valuation multiples.
- We have sold Chinese onshore (A share) equities and added to Chinese internet equities in balanced and growth-oriented strategies.

INVESTMENT STANCE	Versus Benchmark			Changes from previous quarter
	Under	Neutral	Over	
NET GLOBAL ASSET MIX				
Cash		✓		Unchanged
Total Equity			✓	Unchanged
Total Fixed Income	✓			Unchanged
Opportunity		✓		Unchanged
CANADA INVESTMENTS				
Bonds		✓		Increased
Stocks			✓	Unchanged
U.S. INVESTMENTS				
Bonds		✓		Unchanged
Stocks	✓			Increased
INTERNATIONAL INVESTMENTS				
Bonds		✓		Unchanged
Stocks			✓	Decreased