# GENERATION ETFs - Season 2 Ep. 4: Tyler Mordy

**Mark Noble**
Welcome to the fourth episode of Generation ETFs. Today we are discussing global macro investment trends with Tyler Mordy, from Forstrong Global Investments. You'll hear people say to focus on the bigger picture, this is actually counterintuitive when it comes to investing. Indeed investors tend to focus on minutiaes such as individual company earnings, social media news or price momentum of certain stocks without actually trying to put the pieces together on how a single investment is impacted by a larger global narrative. Tyler Mordy is one of the best in the business in identifying the "why" behind many of the world's most important investment trends. So he'll be here today to talk about some of his ideas and things that we should be keeping our eye out for on the forefront of global investment in macro trends.

**Mark Noble**
Tyler joined Forstrong in 2003 and is the firm's president and CIO. Since joining the firm, Tyler has become a recognized innovator in the design and application of global macro ETF portfolios. He's widely quoted and interviewed by the financial media across the globe for his views on global investment strategies and ETF trends. Tyler and Forstrong have been real champions of using ETFs, which is why it's so great to have them on the Generation ETFs podcast because I think actually longer than any investment management firm that we know, they've been using ETFs to build their portfolios, probably going on close to 20 years now. And the reason is simple ETFs provide the core building blocks to build a globally diversified portfolio. So Tyler's going to dive into some of the key macro investment trends happening today, but he's also going to talk about some of the types of ETF strategies he's deploying to take advantage of those trends. Thanks so much for being with us, Tyler.

**Tyler Mordy**
Thanks for having me, Mark. Great to be here.

**Mark Noble**
So I think we chat quite a bit and you see sort of this depression-focused conversation happening with a lot of the commentators that are out there. It's almost as if this 10 year bull market has never happened and something happened in September, maybe someone got a bad hit of something. We always said all of a sudden we have this massive bear sentiment going on. What are your thoughts on there? I mean, do we need to be worried about a global recession? Do I need to be stocking up on cat food?

**Tyler Mordy**
That's a great question. If you stretch back to 2008 and you think about just how cataclysmic that event was for a lot of investor psyches. Behavioral psychologists would point to that and then they'd say that this traumatic event has happened in the brain and they would predict back in 2008, 2009, they would have a long running a period of investors carrying around what at our shop we call scar tissue. Psychologists would say that recency bias kicks in and they would overestimate the probability of another financial crisis. True to form that has happened. We've had a 400% plus rally in the S&P 500 and yet investors are still skittish. This is conforming to your average post crisis environment where risk aversion takes a long time to thaw. There's repeat calls for another financial crisis, regular recession shrieks and we've seen that the world has this unusual habit of continuing as normal.

**Tyler Mordy**
And that's sort of what I always say that it's sort of an occupational hazard as a portfolio manager to want to be the first to spot a massive crisis or a massive decline and that's obviously career enhancing and so forth, but it's difficult to manage money that way.

**Mark Noble**
Well, I think, putting things in context, a lot of numbers get thrown out. You mentioned 400% return and we look at 10 years, but I think when we come out of the 2008, 2009 recession, we were coming out of something very unique, something certainly three generations of investors had never seen. And I think sometimes we discount just how long it took us to get to the real full legs of the bull market.

**Tyler Mordy**
Yeah, no, exactly. I mean, that's only talking about the United States, but if you look around the world, like if you talk to the average investor in Europe and you talk about this concept of end of cycle, they'll sort of stare at you and say, "What cycle? We don't even feel like the cycle started." So yeah, it continues. There's no reason why this cycle can't continue. Central banks are still accommodative if there's a variety of factors that still indicate growth. And we just don't have the recessionary signals that we would have during other periods. But it was a special event in 2008. It was unique and one should expect for a long and protracted recovery.

**Mark Noble**
So, if we're going to look at the expansion going forward, what sort of things are we going to look at to drive a positive upside globally?

**Tyler Mordy**
Yeah, so I mean, if you compare the last length of the longest bull market, which happened in the United States from March, 1991 to March, 2001, you look at the economic output that came out of that, it was much larger than what we've seen since June of 2009, which was the trough of this market cycle. So, in terms of ... there's been a lot of missing ingredients in terms of this recovery. One of the big missing ingredients

obviously has been risk appetites, but to go further than that, to look at the corporate sector, capital spending has been a missing element of the recovery. We haven't seen the virtuous cycle of credit growth, employment, that feeding down right into the corporate sector. So, there's that.

**Tyler Mordy**
I think another big super trend that we're seeing right now is that, so for years after the financial crisis this word austerity, it was a very popular word, particularly in Europe. We see now governments sort of have placed the policy burden on monetary policy from 2009 up until basically last year, and now the willingness of policymakers to engage the fiscal lever is much more readily available right now, be it in the United States, of course with what we saw last year or Europe or anywhere in the world.

**Mark Noble**
What deficits, right? [Sarcastically]

**Tyler Mordy**
Right, exactly. And you see ideas like MMT, some crazy ideas being thrown around there. So it's shifting mindsets, it's risk appetite lifting and we just have not seen that typical postwar recovery materialize yet.

**Mark Noble**
One of the reasons that like having you on though is you have this top level look at things, but if you talk to most people on Bay Street, in Wall Street, you know, whatever your opinion may be in them, everything tends to be more of a bottom up view. So if I'm a portfolio manager and I'm looking at my Thomson Reuters screen or my Bloomberg, if I'm a better portfolio manager, then I'm asking myself, valuations and earnings, they do seem to be slowing and that would be a catch tale sign for someone who's trained in fundamental analysis to say, I've got to put the brakes on. But one of the messages you're giving me is that's not necessarily the case or maybe it isn't just for the US.

**Tyler Mordy**
Yeah, really good point. So I think, as a macro investor, it's neat because, most of my peers on Bay street, as you say, are stock pickers and you know, that's always going to be around so that's not going away but as soon as you become a macro investor and you look at all the trends around the world it sort of colors your view of everything. And so if a Canadian portfolio manager says he likes a Canadian Energy particular stock then I'll just think of the energy sector itself. So, what's happening right now from a big picture, a macro perspective, is that expectations for the United States because corporate profit growth has been so good there, has been extrapolated. You've got huge expectations for corporate profit growth. Now those are ratcheting down right now. They were roughly 10%. They're at about roughly 7% for this year. We think that could slow to zero and perhaps even negative this year.

**Tyler Mordy**
And again, being a macro investor, you can kind of enlarge your view of the globe. That's not happening at all in the rest of the world, the rest of the world has about the same profit growth expectations but the valuations and the risk appetite towards those assets are just not there. So you could have... The world is so globalized it tends not to decouple, but you could have a period where the United States actually is slowing in profit growth, almost has a nominal recession as we call it, may not dip to 0% GDP, where the rest of the world is actually growing. Again, it's all about the asset price and the expectations built into that. The larger short, we just looked at one of the big fund manager surveys out there is European equities right now.

**Tyler Mordy**
So, that tells us that there's dire expectations for the eurozone and the bar is so low for them to beat that it can move an asset.

**Mark Noble**
Right.

**Tyler Mordy**
And in Europe you've got the German Bund, the 10 year yielding a whopping six basis points, right? We've got good dividend yields there. So it's all about expectations. And I think we can add some divergence this year.

**Mark Noble**
And I mean, I guess that would be a key reason, one of the big over weights in your portfolio to China, which I think raises some eyebrows. And I think it's important to note that this isn't something that happened the last little while, in March of 2019, this is something that you've had in place for quite some time and actually increased at the worst of it in Q4. Little bit more on why China right now and why there's a big super trend that you think will drive returns globally on a go forward basis.

**Tyler Mordy**
Yeah. So China has definitely the most misunderstood market in the world for sure. And I mean, it's supposed to account for about 21% of world growth this year. At our shop we spend about 30 to 40% of our time just trying to understand China just because it's the second largest economy, soon to be the largest economy in the world. And you know, ever since I started managing money, I've heard that China's supposed to crash year in, year out. Don't you know that there's a shadow banking system, that there's a buildup of debt. And for every one of those points you can kind of say, if I view China through a western prism and try to understand it through our own understanding of an economy, yes, I can understand and that can be sympathetic with those perspectives. If you try to view it from an insider perspective, the world starts to look very different.

**Tyler Mordy**
I mean, the biggest thing in China right now is, you know, it's rebalancing away from a cheap export country to stimulate in the middle class. Chinese incomes are up dramatically over the last 20 years, they are liberalizing the financial markets, you know, take an issue like state owned enterprises being dominant on the stock exchanges while we have an IPO boom there. So the stock market is coming to resemble the underlying economy rather than just being dominated by these large SOEs. So, China, we're very bullish on, and you know, again, it's all about the domestic middle class.

**Mark Noble**
So that would dovetail nicely then when you're looking at China, you're sort of looking not necessarily at the growth of China because we look at sort of the 1990s to 2010 period. That was where we're talking about the infrastructure and physical growth. You're actually looking now at China as a consumer base, which means you're looking at things that we don't actually offer them other than materials here in Canada, and even when we look at US multinationals, there's not really a footprint in China. So you're specifically targeting...

**Tyler Mordy**
Yeah, I think that's a good way to look at it. So like, you can think of the period from 2002 to roughly 2011 as sort of a rapid industrialization phase, the build up of infrastructure and so forth. So that's the sort of, you know, just get the economy going, provide the services and that kind of thing. What's happening now is it's pivoting towards their resource efficiency stage and really focusing on profit margins and things that we all like to talk about. There's definitely a pivot going on. Services are much larger now as a percentage of the economy than manufacturing. And there's some telltale signs that they're moving the right direction. Now this is not, you know, I'm not incipiently bullish on this, they caught me. There's going to be starts and stops. I mean, they had a deleveraging campaign up until late last year. The consumer middle class is not growing as quickly as a lot of people want it to. But I mean, you look on the world economy and you say, okay, China was growing that 2002 to 2011 period. It was growing 10% plus a lot of folks extrapolated that number and said, okay, China is going to go to the moon. Well now it's at 6%. Okay. So it's slowing down but that's orchestrated by policy.

**Mark Noble**
Yeah. But even if you take an $11 trillion economy and go times 0.06 or 6%, you are at 30 trillion dollars within 20 years.

**Tyler Mordy**
Right. There's an exponential Moore's law type thing going on. Exactly. People just don't... Again, I think... And you look at the stability of the renminbi and just how they've internationalized their currency. The capital account is still closed, but the stock market is being opened and there's just a lot of positive things going on.

**Mark Noble**
Okay. So if we'd had this conversation in December, and you were having this conversation in December, so I would call you a genius and was a genius move then.

**Tyler Mordy**
You don't have to.

**Mark Noble**
But if we look now we're having this conversation and I've missed the boat, I mean I'm up 23% or so on China A shares, where's my upside, let's say in the next year or so? What's going to drive it forward?

**Tyler Mordy**
There was a lot of revulsion towards emerging markets last year. The trade wars was definitely an issue. China was at the epicenter of that obviously. China was the worst performing market last year, worst performing stock market that is. I think what's happening right now is that de-leveraging campaign that we saw in attempt to crack down on shadow financing and so on and so forth and credit growth was almost too successful. That slowed the economy and last year we had this commingled issue of was it the trade wars or was that deleveraging. It probably was more deleveraging, it was probably more policy orchestration.

**Tyler Mordy**
Right, exactly. There's a lot of things going on like that. So now what's happening, and again, listeners should keep in mind how important China is for the world growth. Like as a percentage of world growth, it'll probably be close to a quarter this year. China is now reflating aggressively. Interest rates are far lower than they were a year ago. They're introducing more infrastructure investment. They've introduced some tax cuts. The Chinese stock market is a very policy driven market as opposed to a lot of other markets which are sort of bottom up earnings. Yes, earnings matter over the long term for China. But, here we are people talking about end of cycle and a world slow down to that kind of thing. And China will continue to slow in the first half of this year, but I bet by the the second half, the Chinese economy will be growing well above 6% and that'll be reflected in the stock market.

**Mark Noble**
This isn't an investment question, but again, just a final piece on China here.

**Tyler Mordy**
Yeah.

**Mark Noble**
I'm always just blown away at the lack of allocation, particularly from North America, but even more particularly from Canada to China. Like when I sit down and talk to someone like yourself where I talk to any macro economists, it's so abundantly clear that there's a super trend here, again, just the laws of physics and math suggest it has to be there, but we don't see money being, you know, from Canadian flow perspective going to China, there's probably less than a billion dollars in investment funds.

**Tyler Mordy**
Yes. I probably get a lot of blank stares when we talk about Chinese bonds and that kind of thing. Right. I mean, the financial industry is sort of a neat, interesting place because we like to have our silos. We like to get our specialties, we like to invest in things that we completely understand. And as a global investor that's sort of like I experienced revulsion when I hear that, because I'm like, there's so many markets out there you don't have to just be beholden to the international market. So maybe it's part of Canadian conservative culture. I don't know what it is, but you look at the CPP, so arguably the largest and most well-staffed fund in Canada. They just actually came out with an announcement that their current allocation to Chinese assets is at 8% right now, they want to get that up to 20% by 2025.

**Tyler Mordy**
And so if the smartest guys in the room or doing something at this, one should follow the smart money and look at what's happening there. And you look at the stability of... What's interesting too is that the world's perception of safe havens is rapidly morphing. It used to be the Swiss franc would do well when markets crapped out. It used to be that gold did well. What we've seen over the last few years is that the Chinese bond market has done really well. It's one of the best performing bond markets over the last 10 years. The renminbi has been stable and that's all part of understanding China's ambitions to sort of internationalize the renminbi, and assure international investors that they're open for business, they want to integrate into the world market. They joined the WTO in 2001 and they've sort of never looked back since then.

**Mark Noble**
And in some ways leading it.

**Tyler Mordy**
Yeah.

**Mark Noble**
In terms of, outside of China, where there is obviously there's a clear mega trend. If we look at Asia, that mega trend has a huge regional spillover globally, but what are some other key growth regions very quickly outside of North America that you're targeting as well?

**Tyler Mordy**
Yeah, I think from a super trend perspective, we get most excited about China and it's Asian ecosystem, economic ecosystem around there. I mean, you can see the country's sort of following what China did where they were cheap export countries, they moved up the value scale, countries like Vietnam and that kind of thing. But from a portfolio management perspective, I would say that what gets us excited right now is a region like Europe, like I mentioned, it's the most shorted region in the world right now from a stock market perspective. And when expectations are that low I think you can have a lot of potential for positive surprises. BREXIT which is an entire morass of confusion and quite frankly a gong show. But one thing that we've learned, it's almost been a lesson to other EU countries in a sense that it said, "Woe unto you who try to leave the European Union" because it's difficult. The original architects of the EU in the 50s designed it that way, right?

**Tyler Mordy**
So, you could get some stability there. I always think like if you're a pension fund in Germany and you've had this allocation to bonds that are almost a hundred percent for your entire lifetime of investing, and then you start to look over the fence and you look at the equity market, you have to think that the big institutions are going to start to move because the valuation skew between stocks and bonds in Europe is quite frankly just ridiculous.

**Mark Noble**
And you've got companies like Nestle and SAP and other companies that, I mean, they're going concern globally, right? They just happen to be domiciled there.

**Tyler Mordy**
Right, exactly. They're good multinationals. I think like Europe is not going away. Europe is also cozying up to China. So China's reflating right now. And it leads the first one to endorse this one belt, one road initiative, which is big news, but Italy knows. Italy says, well, we have luxury goods that the Asian consumer wants to buy. So why would we not endorse something like that.

**Mark Noble**
Absolutely. And then on the fixed income side another area where things get a little bit murky especially with Canadian investors, we've seen a lot of money moved towards international equities and relative to what they were in the past, and that's a good sign in the Canadian marketplace. But I mean, the one thing they're not doing, and I don't know how far we are from that is, is looking at the global fixed income opportunities. And I know you've been a big proponent of kind of telling people that there's a big world out there, not just on the equity side, but there's some big, big opportunities relative to North America on the fixed income side. Just a couple of those.

**Tyler Mordy**
Yeah. So I've always said like public enemy number one is low interest rates, right?

**Mark Noble**
Yeah.

**Tyler Mordy**
That's the thing in the portfolio. If you take a standard 60/40 balanced portfolio, that 40% as fiduciaries or advisors or whatever it is, it's hard with a clean conscience to say that we're going to stick classically that 40% of the balanced portfolio into Canadian bonds. I mean, after fees it's basically a wash and then in real terms it's negative. So, I've endorsed emerging market bonds, there's... On that side one thing that people often overlook is the currency aspect of it. So you can hedge the currency out but emerging market currencies happened to be like 30 to 40% undervalued. They're still not eclipse. They're nominal highs set before the financial crisis. And so you can buy into, like you can buy an ETF of a basket of government bonds issued by emerging markets. Get a yield around six, six and a half percent, but also buy it in a very cheap currency.

**Tyler Mordy**
So, a lot of folks don't think about that like buying into a currency at 30 to 40% undervaluation. We think that you could make 50% in five years if you take the income, potential capital appreciation from the bond itself and then the currency appreciation. There's all sorts of like, and we're not suggesting you go and sell all your bonds, but there's all sorts of other yield oriented ETFs out there. The REITS in Japan and Hong Kong dirt cheap right now. Those have reflected in Japan like a multi year sort of housing bear market in Hong Kong. There's expectations as there's going to be a bubble or collapse, but it's in the price, right?

**Mark Noble**
Yeah.

**Tyler Mordy**
You can buy a Hong Kong REIT at like five or six times earnings with a 7% dividend yield.

**Mark Noble**
It's just impossible. Again, North America.

**Tyler Mordy**
Impossible, right? So you put that together, don't compromise on diversification and still search for income all around the world and we think that's going to be safer than just sticking your money in the Canadian bond.

**Mark Noble**
Phenomenal. Okay, last one, a little bit more of a fun question. When I started as a journalist, it was HAHN Investments Stewards was your precursor I remember when the first articles they said, "We need you Mark to go write about these things called EFTs." I think you mean ETFs. I think at the time there was two ETF strategists in the Canadian marketplace and your group was number one. So you've seen this market go from basically less than a hundred ETFs to a marketplace of nearly 3,000 in North America. So, if I had to ask you one ETF right now and it could be any provider because we're looking at your specialization here as an ETF expert, but probably something we haven't heard of, you know, what is an ETF right now that if you have $10,000 that you're looking at and we probably haven't heard of? And I make the joke, would it be the MAGA ETF and make American great again ETF or the Quincy Jones ETF?

**Tyler Mordy**
Yeah.

**Mark Noble**
That's an interesting one

**Tyler Mordy**
Right, right. My favorite ETF that ever came out was a dermatology and wound care ETF. I don't even know if it's still open, but I thought that one was pretty cool. So no MAGA, no dermatology and wound care and I've been called a global EFT macro strategist many times. So I'm well used to it. I think the company called KraneShares is doing a lot of interesting things on the China side. We're long in an ETF, the ticker symbol KWEB.

**Mark Noble**
Okay.

**Tyler Mordy**
And that's the Krane shares, China internet companies ETF. This is sort of a good example of a super trend because in America we've got the fangs in Asia, we've got the bats, Tencent, Alibaba, Baidu and so forth. And the fangs are... Quite frankly, we don't on a relative basis we don't like the US tech companies for a number of reasons. But one of the dominant trends that's coming around is that this public perception that the US technology companies are sort of monopolists that are abusing their power. And if you had the, if you had to suffer the indignity, to watch Mark Zuckerberg in front of the Senate last year was painful. That was sort of emblematic of what's going on there. And we think there's a lot of headwinds coming down the pike for FAANGs from a regulatory perspective.

**Tyler Mordy**
In China and Asia, it's exactly the opposite. The regulatory headwinds are not there. In fact, China has allowed these companies to build up quite a good oligopoly structure, a good pricing power. But the big story though is that the middle class in China and Asia is very, very tech savvy spending a lot of money online. Like for example, in the United States, about 10% of retail sales are done online. In China it's 20%. You look at the amount of money that they spent online in China last year, something like 1.2 trillion. In America it's like 490 billion or something like that. So, the scale of the middle class and what it's doing to the Internet companies, it's neat because of the same sector, different countries and we just think that the KWEB has some really good prospects over the longterm.

**Mark Noble**
So that's KWEB and that can also be seen in the HGM portfolio. I think one of the really nice things about HGM and the approach with Forstrong, is if you agree with what Tyler and I have been talking about, and we probably could go on for a few more hours, especially if we got a couple of extra bottles of wine. But, I think what's really important to understand is that you don't have to do this on your own. And that's really the value of Forstrong here is that that these amazing macro trends can be captured in HGM. And it allows you to get exposure implicitly to this without explicitly having all of that in your portfolio, so you're trusting a very experienced portfolio management team to find these trends and allocate accordingly. So, there's the belief here and I think a lot of people buy in into the story when they hear it, HGM is a way to really bring that all together and immediately provide key global diversification for our portfolio to asset classes that you know you might not otherwise be intimidated to tackle on your own.

**Mark Noble**
I wish we had more time, Tyler, but that's it for today. I really appreciate everyone listening and I really appreciate your time.

**Tyler Mordy**
Awesome. Thanks Mark.