Mark Noble
So, the fallout from the COVID-19 crisis will be severe, potentially, generationally defining, and could last not just months, maybe not even years, but potentially decades. But today, we're not focusing on the doom and gloom around how this virus will change the world, nor are we going to get into the new pastime of amateur epidemiology, and how to contain a virus. We're not going to give you tips on how to use colloidal silver, or drink whiskey. But... although that is fun, today our podcast is just on one thing, and that one thing only, it's your portfolio, or more specifically how you might expect your portfolio potentially be impacted in the next six to 12 months as we recover from the worst of this crisis.

Mark Noble
And yes, we're using that R word, recovery. That's it. We're talking about a recovery because we're going to take the approach that things globally will improve, and there's the potential to get on some once in a generation opportunities that tend to appear during these once in a generation crises. So, with us today is Tyler Mordy, one of our favorite people to come on, and one of the best in the business in identifying the why behind many of the world's most important trends. Tyler has been with Forstrong at Global Asset Management since 2003 and is the firm's president, and Chief Investment Officer.

Mark Noble
And since joining the firm, he's become a recognized innovator in the design application of global macro ETF portfolios. Most people on this podcast probably know him. He's widely quoted and interviewed by the financial media for his views on the global investment strategy in ETF trends. Now, clearly a lot could go wrong from here. We can have a second wave, the virus can mutate and start killing a much larger swath of people. My all-inclusive, $85 a week carnival cruise late September could get canceled. Like we hear a lot about this already, right?

Tyler Mordy
Yeah, of course.

Mark Noble
But in terms of the things we don't hear Ty, which I think you're one of the best people at, what are the things we should be focusing on right now? What can we expect this recovery and this post-COVID world to look like in your mind?

Tyler Mordy
Yeah. So, thanks for having me on, Mark, first of all. So, I think, we've had a lot of debate, whether it's an L, a V, a U, a Nike Swoosh, whatever it is. And I mean, I think we go back to a report we wrote in March, which is called investing in a time of coronavirus. And really, I think there was two camps that emerged throughout this whole thing, which was, one camp believed it was a transitory shock, and the other believed it was a longer lasting depression. Now, the second camp is far larger than the first camp. We've been in the ... For full disclosure, we've been in the first camp for a long time, for this simple reason.

Tyler Mordy
If you look at the terrain before the virus hit planet earth, you look at the macro economy, you look at the so-called imbalances around the world, the economy was still in pretty good condition. There weren't any major household imbalances aside from like Canada, and some Canary economies as we call them. But I think everyone, the human inclination is to compare this to past periods. And so, okay, let's have a go for it. Let's look at 2007. Let's look at 1999. Let's even stretch all the way back to 1929. Now, 2007, classically, you had a major household debt issue. You had housing, you had all these things.

Tyler Mordy
In 1999, you had capital overspending in the tech space, and then in the 20s, again, you had this consumer debt issue. Now, the difference between a transitory shock and a longer lasting depression, why we think we're in camp one is because all of those prior periods had major imbalances that if a crisis occurred would take years and years and years to rectify. So, it would be a longer running change in trend driven by whatever the burst in the financial imbalance was. So, today's a little different. Remember, this is a government-mandated lockdown. It's not driven by some financial crisis, or anything like that.

Tyler Mordy
The financial crisis we saw in March, actually very much reminds me of March 2009, but the situations are very different. So, we view this more as a temporary liquidity and demand shock followed by return to trend growth. And remember a return to trend growth is not that hard. The bar is pretty low. We're under 3% world GDP growth. And so, if you believe like we do that this is the nature of capitalism, there's an enormous amount of capital chasing a treatment, a vaccine, whatever it is, we should expect the economy notwithstanding little regional flare ups, and second waves, and so forth, but no major return to a pandemic. Then one should start to think about the world as it may become.

Tyler Mordy
And that's why everyone's tripping up right now. They're saying, "Well, how in the world can stock markets be where they are given the carnage?" And so, that's our view. It's a transitory shock, and it's thrown up opportunities that we haven't seen in a long time. I've been managing money for 20 years now, and I get excited at the valuations that we see around the world.

Mark Noble
I'll take the bearish approach, right? But the thing is, is that if you look at the amount of demand destruction that has occurred through this period, which is what people are focused on, I mean, that's not something that's going to fix itself overnight, right?

Mark Noble
We went from 6% unemployment to 15% unemployment in the US right now. We split the difference, right? We're probably at about 10% unemployment, which is recessionary conditions for some time. That makes you wonder like, so even in this more, not maybe a prolonged crisis, but at least there may be some kind of reset that occurs here? Right?

Tyler Mordy
I think there's some reset. So, I'm not trying to minimize the damage that is occurring. We are definitely seeing like, I mean, the second quarter GDP will be the worst since at least the Great Depression. So, I'm not trying to minimize that but again, I think if you think about returning to trend growth, and returning to the world as it may become, then markets are trying to fumble around and price for that. And so, I mean, we're going to have really ugly figures over the next quarter here. The other thing to think about, and this is the big ... I say that COVID-19 has been an accelerator for a lot of our super trends, and those super trends we're tracking. The policy response has been so enormous. I mean, they resurrected all the apparatus that took 18 months during the 2008 global financial crisis in three weeks.

Tyler Mordy
And then the actual, if you get the monetary and fiscal numbers right, I mean, it makes the 2008 financial crisis, or policy response look like child's play. And here's a data point that will ... Back to your question about unemployment, that type of thing. The data point that's interesting, and I'm not just trying to be bullish here, but personal incomes in the United States will likely be up this year. And that's because a lot of folks in the service, and hospitality industry will make more money sitting at home because of all the government support when they do in their day-to-day jobs.

Tyler Mordy
And I mean, when we started doing the numbers as a team, I just fell out of my chair because people are wondering how people are still able to spend and stuff like that. And you point to the policy response. It's been ridiculous and enormous. And we can moralize about how that's destroying money, and how it's borrowing growth from the future. And I empathize with all that, but let's save that for the gold bugs, they can do that. We're trying to like outperform here. That's our goal.

Mark Noble
So, what does this new environment look like in your mind? Like you have a number of your super trends, but like [if] you could take one or two that you see really coming to fruition maybe faster than even you anticipated or as a result of COVID-19.

Tyler Mordy
Yeah, I think the number one, and this is something, I've been a deflationista for some time. So, I think the number one thing is we are setting up ourselves for a period of not 1970s style rapid inflation, but we are setting up the 2020s for a return to more robust inflation. Now, you'd have to blow a lot of birthday candles out to remember when interest rates went consistently up from 1946 to 1981. But you think back, like, I love financial history, and you look back to the early 80s, and everybody thought inflation would be well entrenched, and it would be so hard to tame. And every central banker led by Paul Volcker was hell bent on fighting the inflation beast.

Tyler Mordy
Fast forward to today, 39 years later, we've got everybody believing in at least a disinflation thesis, and we've got every policymaker around the world scared to death about what Christine Lagarde, at the IMF calls the deflation ogre. So, I think if you think about those things and think about returning the trend growth, and return into some capacity utilization, we're setting up the world for some inflation. You said to pick on two, so quickly, my second one is, I think the world now is really emerging into what I call a tri-polar world. So, there's the Americas, there's Europe, and there's Asia with the epicenter of China.

Tyler Mordy
And if you get that right, I think macro becomes a little bit easier in the sense that ... So, there's been a big push, and a big belief that we're de-globalizing. I think that's true in terms of industrial circulation, in terms of some sort of policies decoupling from each other. I don't think that's true at all in terms of digitization and knowledge-based flows circulating around the world. That's a whole other conversation. But the neat thing, I think what we're seeing now is ... And this speaks directly to the pandemic, is the perception of Asia as a safe place is increasing at the margin.

Tyler Mordy
And remember, money managers don't think or shouldn't think about good and bad. They should think about better or worse. And I always like, as a global money manager, I always think of the regions that are going from let's say bad to less bad, or improving at the margin. And so, this pandemic, Asia's come through it swimmingly. It could be their experience with SARS. We can point to a number of reasons, but the fact of the matter is they did come through it well, and the big differentiator is they didn't blow up their government balance sheet to counter the pandemic. You see the policy response, and particularly in China, it's been pretty timid.

Tyler Mordy
And this is the first crisis. And I've always thought about this what I call the Wall Street leash effect, if the S&P 500 was up a point, the EM would be up a point, and up a two points, and vice versa on the downside. But this is the first time that we've had a crisis where Asia has outperformed, certainly, on a volatility basis, but even on a performance basis in China, through a crisis. And it's been pretty incredible to see that. So, I think these three orbs become very important to understand. Europe's got its own dynamics right now. And I always say that crises create the space ... That's a popular term creating space. They create space for radical, or unorthodox policy to emerge. And that's happening in the US, and more so in Europe.

Tyler Mordy
But I think the big trend is, if you think about down the line, who's going to lead us out of this crisis in terms of those three regions? And there's more and more evidence that at the margin it's going to be Asia, it's going to be the Asian consumer.

Mark Noble
And I know you and I have talked a lot about this particular topic in terms of the real leadership on a go-forward basis might be established during this crisis. It's not just ... I know people get up in arms about the numbers that came out of China, and did they contain the virus? I mean, we'll take the conspiracy part away, or look at somewhere that is transparent like South Korea for example, or Taiwan, in that same region that the numbers are there. They simply did a better job of containing the virus as well as the fact that before we got into the virus hitting things in December, January, economically, they were really coming online in terms of getting past that 10 years of underperformance.

Mark Noble
That leads me to my next question though. I mean, do investors need to be ready maybe for a decade now where leadership of America, not only clearly from a policy perspective, but from an equity and performance perspective starts to reverse relative to East Asia?

Tyler Mordy
That's a very good question, and full disclosure, and to put the most charitable spin on it, I'd been a little early in that call. And not disastrously so, because we've still kept up with benchmarks and everything like that. But I always love to frame it in history, and coming out of the 2008 financial crisis, and I remember March 2009 so well when the market bottom 666 on the S&P 500. The US was really prime for outperformance. It was primed on evaluation basis. The US currency was cheap. US stock market was cheap, and the US was the lead monetary polluter as I called them. More importantly maybe is that the history books show that after a big financial crisis, the safest house and neighborhood tends to do well, which is the United States.

Tyler Mordy
So, we've had 10 years of chronic US outperformance, and now starting points are really important. That's one thing for investors that they should keep tattooed on their forehead. The starting point is important and a lot of that's to do with evaluation and expectations. So, behavioral evaluation. And so, emerging Asia now is at that starting point, and I don't think this is a financial crisis, I think this is a demand shock that we're having right now, which is government-mandated and very different from a classic recession as I've outlined. But Asia is very positioned for ... There's low expectations towards the region. The headlines are very poor. We see the US Chinese tit-for-tat word war, let's call it right now.

Tyler Mordy
And it's a good starting point from a behavioural perspective, and it's a good starting point from a evaluation perspective. And it's not just China. I mean, I'm not an apologist for China by any means, but it's South Korea, it's Taiwan, it's Vietnam, it's countries like that. And so, I think every crisis leads to a change in leadership. And right now the big danger is that this US chronic outperformance has gone on for 10 years, and there's been a crescendo into this in terms of what I call the stay at home trade is so long in the tooth. I mean, it's just exacerbated the overvaluation.

Tyler Mordy
And so, the stay at home trade, I mean, that basically US technology. And so, everybody's run into that, the models that we look at, so it's overbought on a three standard deviation basis. And so, you start to think about who will lead in this new regime. And it's got to come from Asia, it's the Asian consumer, the Asian stock markets, that type of thing. And so, we think that's one of the big stories for the next decade.

Mark Noble
Now, if I'm an investor, your classic Canadian investor who's 60% invested in Canada, and then has the bulk of my global exposure in the United States, how do I get exposure to China? I mean, that's a big first step I think for a lot of investors is to actually, "Okay, I get what this guy is saying about China. I get that they've had a better policy response, but I don't trust anything in China. I don't trust anything in Asia." What's the way for me as an investor to go into that marketplace?

Tyler Mordy
Yeah, no, that's a good question. And I mean, there's so many perceptions of the world that we can dismantle too. And again-

Mark Noble
Right, I know.

Tyler Mordy
... I'm not trying to defend China, or any of these regions. I mean, I always say I think the US is as guilty, and as is Canada, and everything. I mean politics, they're messy, and that type of thing. But I think to answer your question directly, the best way I mean, for the standard individual investors is through exchange traded funds, and to take a broader-based approach, and to just think about ... When you think about portfolio construction, I think the neat thing, and I alluded to this earlier, but the neat thing is as you de-globalize these regions, these three regions, the world become more independently oriented, it becomes more important to diversify geographically.

Tyler Mordy
And the last 30 years, one of the big phenomenons with globalization, everybody talks about the movement of like people and information and stuff like that. But really financial flows have been the big story of globalization. And so, it's been harder and harder to build a globally diversified portfolio that has a non-correlation. And even you've seen that with the Chinese stock market has become more correlated to the US

stock market. I think that reverses now. And because it's becoming its own independent economic centre of gravity, and decoupling from the economic flow and activity.

Tyler Mordy
And so, when you think about portfolio construction, you should start to think about, "Okay, I want to diversify my risk factors, but I also need to start to start diversifying my geography." And Asia is definitely one that every investor should have exposure to. And if you think it's risky, then I always say, "Well, the CPP made the announcement that they're going to have 20% of their portfolio in Chinese assets by 2025." And so, the most well-resourced, and largest public pension plan is going to that direction too. And it's not just China, it's other regions of the world too, but it's mainly centred around emerging Asia.

Mark Noble
And I always like to highlight this out to investors is that you tend to think of the large S&P 500 companies as omnipresent, mega-cap multinationals. But if you look at consumer brands in Asia, and we have to assume just by sheer numbers that 50 to 60% of consumers by the end of this decade are going to be in Asia…

Tyler Mordy
Yeah.

Mark Noble
... Major consumer force. They don't buy Western brands to the same degree. I mean, they buy some luxury brands, and maybe there's KFC, and McDonald's, and a couple others. But when we start talking about technology companies, there's Xiaomi, Huawei, Baidu, like they have their own entirely different consumer ecosystem that I'm willing to bet the vast majority of investors have almost no exposure to whatsoever, where that may not have been the case 20 years ago where if you own the large 500 names in the US, you had a pretty good sense that you had 80% of consumer exposure globally. Right?

Tyler Mordy
Mm-hmm (affirmative). Yeah, no, that's a really good point. Like, I mean, what I always remind investors is globalization is a double-edged sword. So, a lot of investors will say, "Well, I get my global exposure through US multinationals." That's my least favourite position on portfolios. Because the fact of the matter ... And this is not just China, but Brazil, and everything, that you look at the consumption trends in Brazil as an example. Even if you look at beer consumption, I mean, it's shifting so closely towards Brazilian made beer. And so, these US multinationals now have to go into those jurisdictions and fight for competition with that. And so, I mean, I think what speaks to that too, really closely is a lot of people say, "Well, the perception of China through this pandemic has diminished and their export markets are going to suffer."

Tyler Mordy
Well, maybe so, but their export markets are actually pretty low as a percentage of GDP relative to other countries around the world. So, how in the world can we see these earnings coming out of like Baidu, and Alibaba, and stuff like that? It points directly back to the Asian consumer and how integrated they are with that. So, we have the FAANGs in North America, they've got the BATs. I mean, that's the way it goes. And by the way, the BATs don't have this public perception that's turning against them like it is in the US which is that the FAANGs are these monopolists that are abusing their power, and it's-

Mark Noble
Yeah. And owning liberal newspapers and things like that. Right?

Tyler Mordy
Exactly. Yeah. And again, I always approach this from a portfolio construction perspective, and making sure that people have the right exposures and the right strategic components.

Mark Noble
Okay. So, let's shift gears a bit. We've hit the Asian theme here, but one of the products that we have here at Horizons with you is we have the Horizons Managed Global Opportunities ETF, which is ticker symbol HGM, which I love because it's really, from you guys it's sort of a best ideas fund. And so, if I'm asking, what's Tyler and the team's best ideas? This ETF covers that. So, it's really easy for me when we can chat, because I can look at what you're holding, and I can see if you're putting your money where your mouth is-

Tyler Mordy
For sure.

Mark Noble
... And one of the things I really like is, I saw that you made a big move towards EAFE small caps is 10% of the ETF. Give me a little bit more colour on that. That seems like a very ... I am just going to say, a very aggressive stance to take in this marketplace.

Tyler Mordy
Yeah. So, I think there's a couple of things going on. One is the behavioural side of things, and two is the political situation in Europe. So, on the behavioural side of things, and we're confirming this by numerous surveys. The vast majority of investors these days don't believe in this rally. They don't believe in the recovery. Most people think this is a bear market rally. We don't think that's the case. And so, the trade is to be very less cyclically oriented, and to hug into the stay at home trade, and to hug into the deflation winners, and to include as many of those components.

Tyler Mordy
So, I mean, you're quite right, EAFE small caps are aggressive in the sense that if you do get a more robust recovery than people think, the consensus is pricey then, then the sectors, and the regions, and everything like that will do better, will tend to be more in the small to medium-cap space, will tend to be more cyclically-oriented, and will tend to be overseas. So, HGM, I mean, it's definitely a best of ideas strategy, but it takes its risks when you see the slow pitch happening. So, that's the behavioural side. We think that the recovery in Europe will be better than people think.

Tyler Mordy
The political side is extremely interesting right now because remember at the beginning of the call I mentioned that anytime you have a crisis, it creates a space where you can easily push through radical policy. Now, Europe needs to decide who it wants to be when it grows up. It's been fumbling around with this monetary union without a fiscal union for years. And we can see it doesn't work. Like Italy hasn't grown like basically since joining the EU. It's a disaster, and the beneficiaries have all been the Northern, higher quality countries like Germany and France.

Tyler Mordy
And simply put, we need a fiscal union. And where you can edge into it right now is somehow engaging in some form of debt mutualization, or a common bond issuance across the Eurozone. Now, you may have heard of this, Mark, but in the last couple of weeks here, there's been the Franco-German proposal where the European Union itself issues bonds as a coronavirus recovery fund. Now, it's very small. It's going to be like something like 500 billion euros. So, that's small in the world where we can conjure up 4 trillion and do all these types of things. But I think what's happening is, if you think about Europe having a potential breakthrough in a fiscal union, which looks very likely over the next month, these things will take off [inaudible].

Tyler Mordy
We're seeing some front running on that. Even today as we sit down, the European banks are up 5%, and Europe last week was like really outperforming. And so, I mean it's hard to make a case for Europe. Like you stand in front of a crowd and saying, "We love Europe." Everyone will say, "I'm not interested. I don't want any piece of that." But the fact of the matter is Europe is the cheapest major region in the world. The banks are priced as if there's economic Armageddon. And to us it's a sort of the risk return trade-off is just very good relative to, as I mentioned, the behavioural side, and potential breakthrough in a fiscal union. We're monitoring it closely too. And if it doesn't work out in the next few months, we're going to have to move on.

Mark Noble
And you've got a pretty good mix of haves and have nots. Right? I mean, that's always been the challenge with EU is that you have Italy, Spain, Greece, but then you have Germany, and Poland, right? At the other opposite end of the spectrum. I mean, Germany in terms of capitalization, economic growth is pretty phenomenal given how developed it is. So, you're going to get the good with the bad.

Tyler Mordy
Yeah, exactly. Our EAFE small cap play is definitely very diversified. We're not taking a concentrated risk in Italy, or Spain, or any of that, but I think we would look to take more concentrated risks as that recovery evolves. But I think a breakthrough like some edging into a fiscal union is going to be a very good month for Europe, and we'll have to assess it after that. But as I said, the probability looks good at this stage.

Mark Noble
So, this is a good segue into the interest rate discussion. Because in the past you have been clear on the lower for longer, and now you're talking about potential for hyperinflation if you're talking 1970s Paul Volcker issues.

Tyler Mordy
Not hyperinflation.

Mark Noble
No?

Tyler Mordy
No. Just sustain like three to 4%.

Mark Noble
Okay. All right.

Tyler Mordy
Yeah.

Mark Noble
Sorry, I misunderstood that.

Tyler Mordy
No, that's okay. No, that's the gold bug discussion.

Mark Noble
I had visions of 13% mortgages and things. So, you do think though that we've probably hit a bottom then in terms of interest rates though? In terms of where they are historically?

Tyler Mordy
I think so. I think the deflation theme has run so far but there has to be a catalyst to change our view. I mean, I've been on the lower for longer since 2009, so it's quite honestly, it feels like changing religions a little bit here. And I mean, we're going to have deflation first. I mean, we've even seen some deflationary prints as we speak here, Mark. But I think the big change, and the big difference is the fiscal lever has been engaged. And if you think about the period after 2008, that first post-crisis period, the policy burden has rested entirely on central bankers. And I mean, even Mario Draghi, the outgoing chairman of the ECB, continually argued that we can't get out of this deflationary funk only using the monetary lever.

Tyler Mordy
We have to have some participation in the fiscal lever. And even more so now what's happening, and I'm sure you've read about MMT, and all these types of thing. There's becoming a co-mingling of the monetary and fiscal lever. It's becoming incredibly difficult to determine if the debt issued is being monetized quickly. You have to follow the flows, and stuff like that. But I think we're inextricably leading to that era. And so, fiscal stimulus works ... And you remember everybody in the post-crisis period was confused where we're like, "All the gold bugs were like interest rates are at zero and hyperinflation is our future." And it never happened.

Tyler Mordy
And that was a dominant view for much of 2010 to say 2015. And it's only now that people are coming around to that view. And the reason why is because when you have a major de-leveraging period ... And I think the biggest macro story of the 2010s was private sector de-leverage in the United States and Europe. That was the biggest trend-

Mark Noble
Because they held the cash.

Mark Noble
They held the cash. Yeah.

Tyler Mordy
Yeah, they held the cash, savings rates went up, and they tried to get things going. So, now the fiscal lever, it works very differently. I mean, spending money on infrastructure and tax cuts, and everything like that is inflationary as opposed to just dropping rates, and expecting credit to take off. It doesn't naturally do that.

Mark Noble
How do you price risks then as a portfolio manager? Let's take corporate bonds, for example, which are now ... I'm going to argue they're implicitly backed by like the fed bond, now you're talking about these fiscal measures. We have both the Central Bank of Canada and the Central Bank of United States actively buying corporate debt. So, they're basically backstopping corporate North America. So, I mean, how do you even account for that as a manager for risk? Because now if I have a certain investment-grade bond, it's implicitly backed by the government for this fiscal stimulus.

Tyler Mordy
Yeah. Are you talking like broad risk, Mark, or like equity risk?

Mark Noble
Just looking at it when you're looking at buying, let's say an investment-grade bond, you're getting 40, 50 beeps on a US treasury, let's say. Right? I mean, anywhere from five to 10 years. But I can get 2 to 3% on a corporate bond. But I also know now that at the end of the day the feds and they're buying those bonds. That's different, right? Because in 2015-

Tyler Mordy
That's very different.

Mark Noble
... We had the equity market being propped up by monetary stimulus, but we didn't have active buying of securities. And I just wonder does that create some price dislocations and some very unintended consequences?

Tyler Mordy
I think it does because I mean, buying corporate bonds, and now junk bond ETFs is almost gateway into other stuff. I mean, we joke around the office that they're going to be buying baseball cards at some point. But it could be true, right? I mean, that's the experience of Japan. I mean, I think the theme of this podcast is crises creates space for crazy things to happen. And yes, people overestimate changes in the midst of a crisis. That's a behavioural bias. But I think the big surprise here ... And this gets back to your question about risk, people are debating whether the stimulus has been enough to plug the revenue, and income gap, and everything like that with these government-mandated lockdowns. I think the big surprise will be that it will not only compensate, it'll overcompensate for a lot of the risks.

Tyler Mordy
And so, I think a dominant trait of the ... And we've had two crises since '08, but the dominant traits since 2008 crisis, investors have been skittish. They've been reluctant to take on risk. They're moralized about the dangers of central bankers, and they haven't honoured the Fed put and that type of thing. But I mean, I think that if you think about risk for sure, if governments are coming out and saying, "We're going to buy this, and we're going to buy that, and we're going to plug whatever we can." I mean, as a manager it definitely ... Not that you're relying solely on the government put, but it definitely urges you out further on the risk curve.

Tyler Mordy
And nowhere is that more true than in the income space. I mean, people are going to have to really rethink how they run a balanced portfolio. There's no way in hell that someone can have 40% in bonds anymore in domestic bonds. The math doesn't work. And especially us as purveyors of financial services and that type of thing. If you charge a fee on top of it for our stewardship, then it's hard to come in clear conscience to have a 40% bond portfolio. So, I think the risks are tilted to not necessarily to the downside, there's a lot of upside risk in the world economy right now.

Mark Noble
Are you a net buyer then on like higher-yielding credit? Like have you gone out on the risk curve, and the duration curve on the bonds?

Tyler Mordy
We're short duration, long credit. So, I mean, if you look at the US high yield bond space, I mean ... So, there was the 2020 low that the spread was 299 basis points. It blew out to 1,050 basis points in March. And then it's come back to 650 basis points. So, I mean, you've got to squint to see interest rates right now, but when you look at 650 basis points over the equivalent US 10-year treasury, it's still good, historically. I mean, you're still getting paid to wait. You've got a government backstop, and you've got 650 basis points. Now, there's things that you can monitor to determine if that's a risky position. For example, bankruptcies. Well, corporate bankruptcies are plunging now, like in terms of their declining because there's more policy backstops.

Tyler Mordy
So, the cool thing about tops I always say is that you get time to look at the underlying economic activity deteriorate, and tops tend to be more long and rounded. Bottoms are tended to be cathartic because fear is in the driver's seat, and people are selling things now and asking questions later. And so, I think I'm quite excited about outside the fixed income space, like the government fixed income space. But there's a lot of value in credit right now.

Mark Noble
And in terms of any other opportunities, I mean, what are some other, maybe, counterintuitive things that people wouldn't be looking at, that your team is actively looking at from a global asset allocation perspective?

Tyler Mordy
From the global ... I think the European theme is one that is really underappreciated. I mean, a lot of people think about Asia and think is now the time to buy when there's blood in the streets, and that type of thing. But I think that's one thing, but I think you should think in terms of within the EM space, quality. And that might be strange saying that with all my comments about there's upside risk, and there's going to be recovery, and people are overestimating the changes in the crisis. But when you think about differentiating all these emerging markets, I mean, Latin America still looks like a disaster. The commodity markets still ... I mean, to us, I mean, we've also had this thesis of oil lower for longer. Now, we never thought we'd see minus $40 a barrel or anything like that.

Tyler Mordy
But I mean, one thing that speaks to the power of something like HGM and the power of international diversification is, I mean, we still have this home bias problem in Canada. And if you would have gone through the crisis with just a Canadian-oriented portfolio, you would have done really horrifically. Canada was like one of the worst performing stock markets through this. So, I mean, I think the one thing that we're starting to think about, and this might answer your question more directly is within the commodity space, notwithstanding a robust recovery like over the short-term as things normalize somewhat, you still want to be owners of those countries that are commodity importers and benefit from that. And I'm probably going to sound like a broken record, but that leads you back to Asia.

Tyler Mordy
They tend to be net commodity importers. They don't produce a lot of oil, and that whole system has changed. And we haven't even talked about the alternative energy space there too. But that's definitely, part and parcel because this is a crisis. This is probably the first crisis where the ESG thing or the carbon initiative type thing is actually durable through a crisis.

Mark Noble
Big time.

Tyler Mordy
People tend to abandon that. Crises change behaviour in the moment, they tend to abandon any sort of capital spending initiatives, or anything like that. And this is actually accelerating, not only because we've got a philosophical commitment among like the G20, let's say, but also because the fiscal packages are rolling out, and they need some direction to aim that money at. And climate change seems to be the place to go right now.

Mark Noble
Well, and also you've just ... I mean, the crisis has highlighted the absolute intrinsic value of technology right? I mean, we've found-

Tyler Mordy
Absolutely.

Mark Noble
... Alternatives. I don't think that the 401 is going to be easy driving forever. I'll be in Ontario, but I don't think you're going to see 100% of the cars go back on the road anytime soon. And that's not to say that's not people getting their jobs back. It's simply because the infrastructure is there now to have remote work, to have interconnected communication. So, this demand destruction for oil could be significant.

Tyler Mordy
You and I would be sitting together normally to do this. Right? So, that's-

Mark Noble
Yeah. Exactly. It's not bad.

Tyler Mordy
Business travel will definitely be lower, for sure.

Mark Noble
I miss your wine though. I do like the global balanced wine.

Tyler Mordy
Yes. We're creating a new vintage so it'll be in your office soon.

Mark Noble
One final piece is just in terms ... We've talked a lot about the positive, which I think is really great, right? Because you're an objective guy and you're just looking at the situation, and seeing the opportunity that's existing as someone who's been running money now through two crises as it is, and few money managers get to do that. But is there anything that does concern you? Because you listen to this conversation, you hear two guys that seem very bullish, but that's just being informed by looking at the fundamentals. Obviously, you're always looking at risk as well. What are some of areas where you would be maintaining some protection in your portfolio, or you'd be keeping your eye on that, "Okay, well, I thought we were going this way. This is a real risk that we need to keep our eye on or it could derail this thesis."

Tyler Mordy
Yeah. And I don't want to give you an answer that's a [inaudible 00:35:52], like a second wave or anything like that, we know that's a superficial treatment of your question. I think the number one risk right now is concentration risk. And what I mean by that is that the stay at home trade is just so crowded. And this speaks to large-cap growth in the US in particular, but all around the world. The technology space, even though there's going to be some positive earnings behind that, the positive trends, everybody already knows that. So, I think folks should be aware of over-concentrating their portfolios in the things that have done well.

Tyler Mordy
And a crisis will always drive the thing that's doing well to further heights. I think also, as much as we say that we're bullish on emerging markets in Asia and that type of thing, I mean, we're still in the foothills of a long journey. And even China's, it's not enough to lift the world into a robust style economic recovery. And you do need the participation of Western markets. And now, I mean, if you look at ... And again, a lot of this is more for the gold bugs, but if you look at the debt levels, and you look at the demographics, and you look at all those things, it can become pretty sobering to look at those regions.

Tyler Mordy
And the valuations, obviously, especially, in the United States are not that great. So, I worry about a financial accident because people will be ... And this is a function of this, this policy support that we've had. Governments are insisting that you go out on the risk curve. That's what they're doing with financial repression. And so, we've had that in the US tech space. We probably are setting ourselves up for further bubbles. And then where is the cushion left? Right? I mean, there's already this perception that negative rates are antithetical to recovery. They're not productive.

Tyler Mordy
And so, I worry particularly in the West, that still is, let's call it roughly half of the world GDP, just doesn't have enough demand drivers. So, I agree, demand, I still continue to worry about. But things are made at the margin, and the hope is that we get this part of the world that is rising incomes, and production, and earnings, and so forth, and it's able to counterbalance those risks. But it's for sure a real thing. And then of course, just the last one, which is the biggest concern is, do we elect a president again that goes full bore into these protectionist measures? Remember that people comparing ... This human inclination to want to compare, we will not have a 1930s Great Depression unless the whole world turns inward and turns protectionist.

Tyler Mordy
I don't see that happening. Right? And China's done a pretty good job as positioning itself as a protector of free trade, and anti-protectionism,

and pro-globalization. So, I'm hopeful that doesn't happen, but there's still a level of worry among populism, I guess you can say, and the associated protectionism.

Mark Noble
And that brings you to our final question. I made the joke that ... And you keep bringing them up, gold bugs. I find that they're like the vegans of finance. Do you know what I mean?

Tyler Mordy
Yeah.

Mark Noble
Like they want to ... There's some merit to what they say, but no matter what you try, I'm not eating your peanut-based hamburgers.

Tyler Mordy
It's the only asset class in the world that's also a religion. That's what I say.

Mark Noble
Well, you're going to hear right now, especially, being a macroeconomic manager, it's like, "Well, why wouldn't you just own gold?" How do you deal with that kind of aspect? This is our last question here. And just in terms of a key defense of asset, I mean, if things start to go sideways, where are you going? Is it gold?

Tyler Mordy
Yeah, in HGM, we actually own 5% gold stocks. And we have owned them throughout the pandemic because, initially, when you have a crisis, gold should do well. And to be fair, it did perform its crisis producing quality, right? Or it served well during a crisis. The reason why we don't get really excited about gold long-term is because the utility is fading from it. For example, a lot of the people that like gold had lived through the 1970s, and had witnessed an epic gold bull market, and this is a behavioural thing. They want to relive it again, whether they like to admit it or not.

Tyler Mordy
And I'm agnostic towards gold. So, the people that ... Like think about a millennial to make an extreme comparison, the typical millennial, I'm squarely in Gen X, but the typical millennial would have no interest in gold, and would really not even know much about it. Right? It would be something that, they're completely off the radar. And so, as the world moves away from the gold standard, which a lot of older folks remember, it just becomes less of a thing in people's ambient sight. It's just not a ... I don't see it as an asset class that people are going to just love. But maybe the other thing too is that as the world provides more policy support and more stability and that type of thing. And you can argue whether these are right or wrong policies, it doesn't matter.

Tyler Mordy
Gold becomes less crisis insurance. So, the further we move away from the crisis, the less utility we have. Now, gold could do well in a mild inflationary environment like we're predicting in the 2020s, and a weak US dollar. And I would anticipate that we do hold gold stocks. There's still some good dynamics happening there. I mean, Lord knows they've been in the bargain bin for a long time. They've been working on cost cutting, and that type of thing, but I don't think it's a candidate for a bubble, that's maybe where I'll end off with that one.

Mark Noble
It was a great answer. Okay. Well, we've run out of time, Tyler, as always. I think we could go for another two to three hours on this.

Tyler Mordy
We sure could.

Mark Noble
I love chatting about this.

Tyler Mordy
Me too.

Mark Noble
But I want to thank you for doing this. And remember again, the ticker for this is HGM if you want to really get a strategy that summarizes some of these ideas, but as well, I urge you guys to check out Forstrong Global Advisor's website. Tyler puts out a long piece every quarter, so called Super Trends, but it's always worth a read. Even if you don't follow along, you'll sound really smart if you can capture some of that. So, I'm a big fan of these guys. I'm always a big fan of having them on. So, thanks again, Tyler, for doing this with us.

Tyler Mordy
We're fans too, Mark. Thanks so much for having me on.

Mark Noble
All right. Take care.

Tyler Mordy
Okay. Take care.

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