HSBC Hexagon Webinar: Outlook 2022 (March 3, 2022)

Transcript

Laura McElwain: A warm welcome to everyone and thank you for joining today's webinar. My name is Laura McElwain. I lead the Institutional Investments team at HSBC Asset Management in Canada, focused on delivering sustainable investment solutions for pension plans, corporate treasury teams, financial institutions and other organizations in Canada.

We respectfully acknowledge that we're gathering on sacred land. I'm joining you today from the traditional territory of the Anishinaabe, including the Mississaugas of New Credit, the Haudenosaunee, and the Wendat. This meeting place is now home to many diverse First Nations, Inuit and Métis peoples from across Turtle Island. We are grateful to have the opportunity to live and work on this land.

I will be your moderator for today and I am delighted to be here with you and our panelists.

Before we begin, I would like to go over some house keeping items.

- The event today will be conducted in English only
- It will be recorded and a re-play link will be sent to registered attendees soon after the live presentation
- To protect your privacy, HSBC will not capture or record any client images, voices or personal information during this event
- Following today's feature presentation, we will facilitate a round table discussion with our panelists through the Q&A feature at the bottom of the screen. Simply type in your questions and submit them and we would be happy to answer your questions.

We're just three months into 2022, and so far this year financial markets have taken investors on a ride! The Russian invasion of Ukraine, in addition to higher inflation and tighter monetary policy from central banks like the Bank of Canada and the Federal Reserve, have led markets down a path of extreme volatility. And don't forget, the world is still in the grips of a global pandemic!

So what's next? And how do we get through the next few days, weeks and months ahead?

While many investors may feel uneasy right now, we remain confident in the outlook for investors over the course of 2022. HSBC is here to support you on your investment journey with expert knowledge and insights to help better prepare for what lies ahead.

I have the pleasure of introducing two special guests to share their insights into the economy & markets and their expertise in the world of investing:

Joining me, we have Marc Cevey, who is the CEO of HSBC Asset Management in Canada. He has extensive investment management and wealth management experience in both domestic and international financial markets. He is with us today to share his views on the economy, markets and where investors should be thinking about placing their hard-earned dollars

We are also joined by Jose Rasco, who is Chief Investment Officer for HSBC, covering the United States and Latin America. We will be digging into his thoughts on direction of the economy and the driving forces behind it as well as where interest rates and inflation are heading.

So why don't we dive in.
Gentlemen, the crisis in Ukraine puts geopolitical risk back on the radar for global investors. The investment outlook, which was already unusually uncertain, has become even more complicated. So what does this this geopolitical shock mean for investment markets?

Marc Cevey: Thanks for the question and welcome everyone. So the way I'd describe where we're at is that we've gone from an environment of uncertainty to an environment of unpredictability. I think that the conflict that is unfolding in Ukraine is making an accurate forecast of the economy and the markets considerably more difficult. What we do know, however, is that obviously this conflict has exacerbated and extended the trends that we've already experienced during the Covid crisis, which is primarily supply chain disruption, as well as a spike in inflation.

The challenge that we have, of course, today is how is this going to unfold? And one could look at three scenarios.

The first scenario is that you know the two parties involved come to a ceasefire, potentially some agreement, and that doesn't mean anything is resolved but at least it would calm the markets. Second scenario is the conflict continues and of course there's loss of lives and all the dramatic scenes that we see on TV, and that will continue to prompt volatility in the markets. Or thirdly, other jurisdictions like NATO get involved in the conflict, which would be the worst case scenario in terms of where the markets are at today. Our estimate is that obviously the markets are discounting what they know, and what they know is a conflict that we're currently experiencing. That's why, for all intents and purposes, we're seeing a lot of volatility in the markets because the markets are focused on daily headlines. So you know [it’s difficult] to be definitive about where the markets are going in the near future, but, at the same time, we understand the volatility that is taking place and why.

Jose Rasco: Well Laura, if I would just add my two cents briefly…I think that's a great summation by Marc. The only thing I would add is there usually, when you see these types of events, you have short-term ramifications which we're seeing play out. Then you have long-term ramifications, which may or may not be intended. Some of them are unintended consequences that we will discover six months or a year from now and say: “Wow we didn't realize this is where we were going to end up.” And I think more importantly, you're making some really dramatic shifts in the geopolitical landscape that will definitely have an effect short and long term in terms of economics, trade policy, trade flows, as well as financial markets.

So some of those you know the expression is “known knowns” or the “known unknowns” and the “unknown unknowns,” and to Marc’s point, we're seeing a lot more of the latter, so I think that you know the key here is to be watchful. Volatility is here for a long period of time and, therefore, we focus on quality. That's all I wanted to add there because i think Marc covered it very extensively.

Laura: Okay great. Yeah definitely an event that's going to continue to unfold. Another event that happened yesterday was the Bank of Canada raised its policy interest rate by a quarter percent kicking off a much anticipated rate height cycle, which I think is also expected to come in the US. Maybe Marc, if you want to start: What's your view on the pace and magnitude of further hikes in Canada? And then Jose you can address the US.

Marc: Yes. So Canada is the second country to raise rates in a cycle after the UK. Now, we all know that the 25 basis point hike was well telegraphed previously. I think there were there was some debate in the marketplace whether it was going to be 50 or 25 basis points, but clearly in light of what's happening in Ukraine, I think the decision was to go with 25 basis points first.

It's pretty obvious that the Bank of Canada is looking at the most recent data and clearly is motivated to increase rates fairly substantially during the course of the year. I mean when you look at fourth quarter GDP growth in this country, it came in at 6.7% – now that's better than the 5.8% that was anticipated. And January CPI actually came in at 5.1%, which was again ahead of the 4.8% that was discounted in the market.

So if you're in the Bank of Canada, despite of course everything that's happening globally, locally the economy is very robust; it's at capacity. So there's strong motivation to proceed with a new tightening cycle. I think that it is likely the Bank of Canada would continue to tighten during this cycle. The market is currently discounted about 150 basis points, including the 25 basis points we've just seen. I think that's very firmly still in the cards.

You look at GDP and CPI expectations in this market. In terms of CPI, we see inflation coming off a little bit from 3.85% to 2.2% in Canada, and globally from 4.6% to 3%. So I think the first half of this year, the Bank of Canada will be pretty certain to raise rates at every meeting. I think the second half is a little bit more uncertain, of course because everything that's happening globally, but ultimately we see the Bank proceeding with most of the hikes that are currently discounted by the market.

Jose: And you know, Laura, in the US I think the number was like 90% probability that the Fed was going to raise 50 basis points on March 16 (pre-situation in the Ukraine). Now, after that situation, that number has fallen precipitously and the market's looking for 25 basis points. Yesterday, Chairman Powell was asked directly what he was going to do, and he answered in a fairly straightforward fashion that it was probably going to be 25 basis points. They were going to try to move in a fairly uniform fashion. Because, to the point that's been made several times, one thing financial markets can't handle is instability or uncertainty: If you're going to change the rules – the fundamentals – I can adjust, I can reprice; if you're going to give me uncertainty about what the new rules are that i don't like, I might be a net seller. So the markets have responded favorably to that news.

Now, I think what you'll see is we think they're going to do 25 [basis points] now and then they'll move in a straightforward fashion doing 25 basis points. But the complication with the Fed is two things.

Number one is inflation, which was 7.5% in January. [I] would not be shocked to see an 8-8.5% number, as outlandish as that may sound to you to you guys, in February maybe even in March. But that's where you begin to see that base effect kick in, and we think inflation should start to slow from there. So assuming the Fed knows that inflation is going to be a little sticky for the next month or two, after that we should see it begin to decline. [I'm] not saying it's going to go from 7.5%-8.5% to 1%, but I think 7.5%-8.5% to the 4% range is doable. In addition, the second problem they have is the size of the balance sheet. So they clearly need to reduce the size of the balance sheet and they have made it clear that they're going to move again in a fairly regular pattern. They don't want to shock the market by doing anything that is not expected. But remember, about every 500 basis points of tightening or removal of liquidity from the system is about 25 to 40 basis points of effective tightening in the markets, because you're reducing the size of the liquidity that is available for lending. So that's an important metric to keep in mind. But again, 25 [basis points] in March and then you know pretty steady increases throughout. Neutral is two and a half, but that's not set in stone, so we'll see where it all goes. But they will monitor the data especially inflation.

Laura: Thank you. Now I have to ask is there a risk that we could be entering a stagflationary environment? You know, due to the crisis in Ukraine, oil prices are rising even more, I think there's a view that supply disruptions may continue to weigh on global growth. Is there a risk there?

Marc: Thanks Laura. Yeah, the word "stagflation" obviously is becoming more prevalent in the narrative for obvious reasons, as you're indicating. I think of course again in addition to all the trends that we experienced during Covid, you now also have a spike in commodity, agricultural commodity, prices. As we know now, and most people didn't realize to a certain extent, Ukraine is or was the bread-basket of Europe, and i don't think that was well known in the marketplace. Of course we know Russia and the importance of Russia as an exporter of energy, base metals, precious metals and of course agricultural commodities as well. So when you add all this up, plus the sanctions on Russia which are very punitive as you can see, [it] will have a significant impact on that economy in all likelihood. One can totally understand that they'd be concerned about rising inflation, and it's in parallel with declining economic growth or economic activity. I think the reason why certainly a lot of market participants and a lot of central banks are continuing to forecast a positive economic growth going forward, they're obviously catching up to the downturn that we've experienced previously.

But you know, offsetting all the factors we just talked about, you've got a very important factor which is the consumer. The consumer has been extremely resilient to date and there's lots of reasons for that: You've got the savings rates that are really high; you've got the wealth effect from markets, you know real estate and equity markets in general; and you've got the most important factor, which is pent up demand. How many of us on this call today have not purchased the next car because we're waiting for the price to go down? A lot of purchases have not taken place and that creates a phenomenal pent-up demand, which is supported by savings to a large extent. This is why we are forecasting a decline in economic growth. So in Canada from 3.8% to 3.1% and globally roughly from 4.4% to 3.5%. Those are just numbers to most people, but i will emphasize that growth over 3% for a mature economy like Canada and other jurisdictions is actually above trend; it's actually a very robust growth. So despite all the factors that we know now, there's still broad anticipation that we will see positive and robust growth over the next number of months…indeed during the course of 2022 and 2023. This is why I would say the stagflation scenario is probably overplayed. There's certainly some risk, but we don't view it as a primary scenario for the next three quarters.

Jose: And you know, Laura, in terms of the US story, [it's] very similar. I agree with Marc completely and in fact I'll take your growth story and raise you on that Marc! Because if you look at the US expectations (3.5%-4%), keep in mind with the situation in Europe the way it is now, what is scarce? Energy, food and a lot of defense products have to be sent over there. Guess what? The US is a big exporter of all three. So 3.5% to 4% growth this year before those get factored in, remember the US traditionally grows at about 1.75% to 2%, so that's more than double the growth rate we usually get. So I agree with you, even though growth has slowed, it's still extraordinarily high.

More importantly, I would focus on the unemployment rate, which continues to drift lower. We get some data tomorrow…there have been a ton of seasonal quirks, Laura, but i think importantly we're seeing that constant downward spiral in the unemployment rate. And with wages strong, and as Marc just pointed out, the resumption of growth and the services sector, where a lot of people haven't been to the movie theater or been on a cruise or been on a vacation, have gotten on an airplane. I'm a million-miler and I haven't been on an airplane in two years. So don't get me wrong, it feels good, but those things are going to start to kick in again and that is going to reinvigorate parts of the economy that I don't think people are giving its due credit to. So stagflation, the odds have gone up but they're still really low. I agree with Marc wholeheartedly on that.

Laura: So I'm hearing sort of net positive or positive on growth. we've got the central banks looking to curb inflation with their rate hikes, but that also just addresses the demand side of the equation. What if inflation continues to persist because the supply issues are still there? What then happens? How is inflation then addressed?

Jose: So look, I think one of the big things is there are four major factors here at play that people don't discuss enough.

Number one is inventory replenishment, whether it's toilet paper, houses or cars, we need more inventories of goods. Number two, infrastructure spending: Forget what the government is doing, it's irrelevant. Look at what's happening in the private sector. If we're going to get ready for the technology revolution, we need new infrastructure. Number three, sustainability…you know green bonds etc. I've heard in the trillions that's available out there in impact investing funds that are waiting to be deployed. So sustainability, the economy 2.0, is coming. And last but not least is that tech revolution that we seem to have forgotten about. 5G is not the end; it's the beginning. So i think those four factors are huge.

The inventory replenishment: Companies are getting used to replenish inventories with less people and more productivity and more technology. As a result, that inventory replenishment is going to help build supply to try to get back to meeting demand. Look at the auto industry in the US. Last year production was down; this year, estimates are it will be up. Why? Not a lot, but a little bit more in the semiconductor space there's more availability of product, so we're seeing that begin to happen. As supply continues to meet demand, look at the ISM numbers and the market numbers for manufacturing activity around the world; they've definitely slowed with Omicron, but on balance they're pretty strong numbers. And we're seeing that manufacturing is rebounding to meet demand, and as we mentioned before with inflation running above wages, you will see some element of demand destruction. But I think that's healthy, that's fine, that's normalization of all this stuff…not negative.

Marc: I have a slightly different angle to add because I think you covered it extremely well. I think that ultimately central banks will be building in their policy scenarios, going forward, an extended period of inflationary period. This transition area environment, whatever the definition is, clearly is largely extended. But at the same time, I think we need to continue to recognize that there's a broad view among policymakers that this is more than event driven and a cyclical driven inflationary pressure. And what we mean by that is, of course, supply disruption. Covid, war, etc. are events, so the evolution of these events is sometimes, in fact most of the time, unpredictable. But this is not a long drawn-out cyclical inflation, so it is quite possible that inflation will be a little bit more elevated, but equally it is quite possible inflation will actually come down very rapidly, simply because of the resumption of supply chains around the world.

So i think there's going to be lots of surprises. Surprises in terms of financial market returns, currency, volatility, but i think central banks will be very flexible and will adapt accordingly. So we shouldn't be surprised if we see a pivoting by any of the major [central banks] over the next 18 months at least..

Laura: Okay thank you. I'm wondering if we should get into some granularity regarding the effects this crisis in Ukraine is having on world equity markets, bond markets, interest rates and currencies. I know you touched on just at a higher level, Marc, at the outset, but did you want to dive a little deeper into these different markets?

Marc: Yeah, I'm not sure we could cover all the markets and the asset classes, Laura, but notionally what we're experiencing in the near term is what we call a risk-off environment, where investors are generally de-risking. And often times in an environment like this, and it's also true today, asset classes like gold, government bonds, US dollars, commodities and currencies like the yen have a tendency of acting as a safe haven.

But I think again we need to remember that crises usually – and not to be flippant about why we're in a crisis, but just looking at it purely from an investment thesis perspective – present an opportunity, and we need to look at the balance of factors. You know one of the factors that we often have forgotten, which was a data point that everybody was fixated on until now, is the percentage of the population globally that is vaccinated. Over 80% of the population, and all the major economies, now is fully vaccinated. And that number is also growing in the developing world, which is very important because it's in a developing world that most of the bottlenecks for supply chains are actually happening.

Then we have the facts that we've talked about, such as wealth effects, savings rates, etc. and consumer spending. So i think we've got to be careful, as investors, to be swayed by the day-to-day and keep to our investment principles and to look for opportunities as they occur, because they will invariably occur. But at the same time, of course, we've got to manage the current risk because it would be naive to think this is just an opportunity; it is also a risk at the present time. So it's the balance of factors that we need to manage.

Laura: So how does one effectively manage this through all this volatility? Investors may have the view that they need to sort of retreat from it all, but i think what I'm hearing is to stay the course. How does one manage through this with their investment portfolio?

Jose: We've been telling clients, and will continue to focus on, to stay invested. Trying to time the markets is extremely difficult and it's a fool's errand. So it's important to be an investor and not a trader. So stay invested in quality assets that do well during periods like this, and expect volatility but try to protect yourself from it.

Now Marc has talked about some of the markets that tend to do well during periods of crisis. Number one is the US treasury market, which is the largest and deepest financial market in the world – the broadest market in the world. In addition, as Marc also mentioned, we're seeing some opportunities pop up whether it's in energy or in the commodity space such as food – those opportunities are very real and we like to stay focused on the fundamentals and I know Marc feels the same way. If you look at the fundamentals, and we monitor these numbers literally every day (we look at the expectations for earnings going forward), expectations for earnings going forward in Asia Emerging Markets, ex china, earnings expectations are 6% this year and 10% next year. In the US, expectations for earnings are 8% this year and 10% next year, so they're just as good if not better. So if you're looking for growth, there is opportunity in Asia to Marc's point.

And we talked about supply chain inventory replenishment. If you're looking for stability of growth and earnings, you know what? America provides some very good safe havens there, and we have some industries that should do very well in the current environment. And even if the short-term problems get resolved, whether it's in energy or food, there are other industries that should do very well and we have some long-term themes that are set to do well over the next couple of years – technology, for example.

Everybody seems to have forgotten about technology because of inflation and all the other situations that are going on. Remember, before we got out of Covid, all people talked about was the technology revolution and how the Amazon effect was going to depress wages for the next 20 years. Remember that wasn't that long ago, and now we have wages going up because people aren't coming back to work as quickly as people thought because of Covid and other situations. So, to Marc's point, wages will normalize but we will continue to see spending on tech even more as we go forward, because it becomes a tool of productivity. So lots of opportunity in the markets short term and long term.

Marc: Let me add to this - it's remarkable that we complement each other rather well José.

Jose: It's the shirt… *[laughing]*

Marc: I guess so! Maybe we should do this more often. So, I would add a couple of things – first, we are in an environment of high inflation and low interest rates, so sitting in cash for the sake of sitting in cash is a terrible mistake over the long term anyways. The purchasing power of anybody who stays in cash obviously erodes and erodes rapidly in an environment like this. Markets have corrected and some attractive valuations have been created because of that as well, and we are in what I would call an inflationary growth environment. So in an environment like that, in our portfolios, we wanted to focus on materials, industrials, energy, but we also want to recognize the risks that are existing here; so we are building some resilience in their portfolios looking at quality growth, which José referred-to, primarily in the US; but there's value in Asia, notwithstanding obviously that the earnings growth may be a little inferior to the U.S. - there's definitely some value there certainly for the long term. So we're also looking at companies with a steady stream of earnings and dividend growth which is the more conservative/protective part of the portfolio. And I would add one more thing about bonds, everybody hates bonds these days probably for the right reason, but most invariably, when equities go down, bonds go up a little bit as you know, but they still act in a balanced portfolio as what I would call "the ballast in a ship" and they provide an opportunity to rebalance. And we're pretty cautious in our bond portfolio. We tend to have a reasonably low duration so maturities have been rolled over at a higher yield when the yields go up. We also invested in mortgages that tend to be a little bit more stable and real return bonds reflecting the high inflation environment that we're in. So to summarize, there's opportunities we want to harvest and we want to mitigate the risk that currently exists, and you can only do that in a reasonably well diversified portfolio and being reasonably active with it.

Jose: Laura I feel bad for you because you're never going to get to ask another question but if I could just add one quick thing, it's about credit equality and Marc's point was just excellent. So, if you look at last year, we set a record for corporate bond issuance in six months, and CFOs being smart people said, "we're not just going to borrow more, we're going to extend duration as long as we can so it went from zero to three years to ten-plus, and it was a double digit increase in that percentage. In other words, Corporate America, and I just know the numbers for the U.S., Corporate America is more than well positioned in terms of debt and debt coverage to go into this period of slightly slower growth and higher inflation and higher interest rates. So, higher interest rates usually affect the economy negatively because when you refinance you're going to have to cancel projects. Guess what? Corporate balance sheets look really good and debt looks really healthy and extended, so I think they're in better shape than people think.

Laura: All right well thank you all; good tips and insights. I'm curious though as to both of your thoughts on the role that investor psyche plays or psychology plays in times like these, when it's very volatile in the markets.

Marc: Clearly this is when investors make emotional decisions more than calculated decisions – absolutely. So a couple of things for me, I think first of all, and to some of our sophisticated investors this is going to sound like “motherhood and apple pie” but it needs to be repeated. First of all, markets have a tendency of always overshooting the fundamentals; we need to remember that. And you have two types of investors at the end of the day: you have the investors who are basically looking for opportunities and invest “in the dips” or “by the dips” as we say, and you have investors who conversely seem to be psychologically frozen. And all of a sudden in this environment, because it's very hard to make decisions, you have the two sides of the coin. For investors who buy the dips, although it’s a good discipline, it may be too early…or maybe too late and it doesn't really matter. The point is, it's a discipline and usually it does pay off over the long term.

The other investors that worry me almost invariably, and I’ve seen this happening way too many times, is the investors who give up on the markets at the worst possible time. The psychology is very simple: there's a first correction and *oops!* we were caught off guard and nobody does anything. Then there's a second wave where everybody gets nervous. And then there’s a third wave where you “cave in”. Notionally and simplistically, that's the way I would describe it. The problem with investors who bail out of markets in general/ in times of crisis - they're not likely to return for years post the crisis. Those years of being absent from the markets can result in giving up five years or a decade of returns and that's why we definitely advocate discipline. And the thing that we see in crisis is indiscriminate selling. And the point I’m trying to make about this is, if you take China as an example and the China real estate crisis; if you don't know anything about real estate in China or China as an investor, you're just going to bail out of China. This is an illustration of the point - times of crisis can create actual opportunities because there are pockets of that market that are actually very well priced and have been sold off simply because people just can't stomach the volatility or the headlines that are happening.

So, for us and to conclude, I would say stick to three basic principles: First, diversification helps you mitigate those swings and secondly, it's absolutely critical to give-up some of the upside. For example, when tech stocks were “rock and rolling” the last couple of years, if you weren't fully invested in them, you would have given up return because the indices were so influenced by these large market cap stocks and everybody is going “oh my gosh”! It's like owning a two-million-dollar home versus a three-million-dollar home if they both return the same return and percentages, you gave up some money on the table if you got the two-million-dollar home - everybody can get greedy that way. On the downside, it's the same. Because of that indiscriminate selling, unfortunately, people if they're not diversified as investors and could really leave a lot on the table so diversification combined with risk mitigation and discipline is important.

As an institutional investment manager and Laura, you know this as we work with institutional clients all the time, if there's one thing they don't want to see in an institutional investor, it’s what they would call “style drift” in other words, shifting your view of investing because of the market condition where you're always chasing market conditions. You can't do that as an institutional investor, therefore you shouldn't do it as a retail investor and it's a lot easier to avoid when you have a diversified portfolio that is managed. And the last thing I will mention and it is an obvious thing and a reminder, most of our clients have an advisor and this is when you want to talk to your advisor. You want to talk to your relationship manager (RM) in times of crisis not when things go well because everybody makes money at that point in time. And by the way, in keeping with that I'm reminding everybody that we've got an email that will go out about the Ukraine/Russia crisis, so watch for an email in your inbox in this respect. José over to you.

Jose: I'll keep my comments brief because I know we have a lot of ground to cover but I think I would say also talk with your investment advisor, tax advisor as well as wealth advisor or wealth planner because this is a very crucial moment in which you can begin to take advantage of structures that may benefit you more than you thought. And the only thing I would add to what you said Marc which I thought was great is just portfolio rebalancing when they're on the way up and you get that style drift. I remember after 2001 a lot of people came to me and said, “well you know tech ended up being 80% of my portfolio” and I said, “well then you didn't listen, because we kept telling you to readjust and rebalance those gains into other areas that were going to grow more modestly and preserve on the downside and lower your overall risk in the portfolio”. The same is true on the way down. Some sectors like tech have gotten hammered, and you may have too small a part of your portfolio in tech at this point, as nuts as that may sound, so you need to constantly monitor what's going on with your portfolio and is it proportional relative to the risk you're willing to take. If not, talk to your advisors and make sure you rebalance so you keep those winnings and you get into those situations where we see advantages in the value side - avoiding value traps. You want to focus on quality companies, so “rebalancing” is really important.

Marc: Very good point.

Laura: Yeah great points! And I just want to touch on one of those points made around diversification which leads to my next question. I'm really curious about both of your views on crypto currencies. You know that could be a diversification play within a traditional fixed income equity balanced portfolio and you see there's a lot of interest that's being generated for example, ETFs are being launched here in Canada and lots of volatility with the pricing. But I would love to get your take on how crypto investments fit in an investment portfolio, if at all?

Jose: The bottom line is, and you know banks can't talk about crypto per se and we can't advise you on it in terms of your individual portfolio allocations and individual line items in a portfolio but, from an asset allocation perspective, diversification is key and there are certainly some markets that are interesting and compelling. But look at the volatility before you leap, right? Look at the depth of the market and look at the liquidity in that market and what safeguards are in place.

So, no question about it, the digital marketplace is not going anywhere, crypto is not going anywhere or NFTs are not going anywhere and neither is the DeFi market. Now, they will get heavily regulated and that is coming, and of course the situation in Europe is going to make this a much more important exercise; you may have heard Janet Yellen already talk about it yesterday and today. I think you'll see the regulators all over this very quickly, but at the end of the day just like any other investment, seek advice from those who know about the market and make sure it fits in with a blended approach to your asset allocation metrics but be clear about that risk, because those markets, if you're not in the right one, can be highly illiquid and highly volatile. And therefore, creating a 3% percent allocation could create a 10% risk factor for you and we don't want to see that. So, I think they're here to stay and they're going to grow and to your point Laura, we're going to see a lot more products coming in the next couple of months and years and clearly, banks, when we're allowed to, will be dealing with that; but do it judiciously. That would be my advice.

Marc: Maybe just to add a couple of comments because you covered good ground there. I think from an asset allocation perspective, from a portfolio perspective - and as you said José, cryptos by definition are a high risk asset and they're speculative in nature - all you have to do is look at a chart of Bitcoin for the last 12 to 18 months: 50% up…14% down, or the other way around, multiple times during the course of the last 18 months. So for us, that kind of volatility, and I think you alluded to it José, is something we can't really justify in a portfolio. The other problem is that you combine that extreme volatility with a lack of intrinsic value that we can explain.

As asset managers, our role is to do a formal valuation of every investment we invest in and that is very difficult to do for cryptos. And until you get experience with that volatility and you're not sure you're getting paid (back) for I - well you tell me if you got paid as an investor if you're in in bitcoin for instance or in another one because you got to be lucky to buy and sell at the right time - certainly it's been the experience over the last number of months as I said. But a combination of that with our inability to actually give a formal value to the underlying cryptocurrency is resulting in us not being able to invest in this type of investment in a diversified portfolio. The marginal contribution, which I think is what you were saying again José, of putting five percent in a crypto in our portfolio, at the end of the day, adds more to the volatility of the portfolio and potentially the return; so this is why we stay out.

Jose: The only thing I would add to that, which I think is an important diversifier here or distinguishing characteristic, is crypto versus blockchain. So, blockchain is the underlying technology, and that is not going anywhere. And crypto, I would argue, is going to continue to get regulated and I think over time, will become less volatile and less dangerous. But for now, to Marc's point, that is where we are. But blockchain as a technology is something that I'm very well versed in and I think it's something that is really going to certainly take over the world of transactions. I think you're going to see transactions get smoother and cheaper and faster and that is nothing but positive for the marketplace; something to keep an eye on.

Laura: Alright, thank you. I'm just starting to go through questions from the audience so please keep them coming folks. The first one is around the red-hot real estate market in Canada, specifically Toronto and Vancouver. So Marc, I'll turn this one over to you. Do you feel that this hot market is going to continue? Do you see a scenario where it's going to soften? What's your view?

Marc: So I think we may be at an inflection point in terms of the potential for market prices, especially in the lower mainland of Vancouver and the GTA area, in particular. You've got conflicting factors at play now. First of all, the positive: we know that there's very low inventory in the market today so you've got virtually no houses for sale and of course it's pushing prices up on the few homes that are on the market. Secondly, you've got really compelling demographics in this country. We're going into our third year where we're expecting Canada's population growth to outpace the rest of the G7; the last two years we were on top of the G7; and immigration, as you know, is a key contributor to that. We're expecting to again welcome 400 000 plus immigrants this year in Canada which, as a percentage of our population, is quite significant - it's over 1%. Then you have record savings that I referenced previously and yes, interest rates are going up but they're still low and in fact, it's because they're going up that there's a high demand to potentially lock in mortgages right now. The offset of that, the negatives, are that cost of mortgages is now going up and this trend is unlikely to ease very quickly so people want to lock into their mortgages today. But the cost of obviously affording a home going forward is going to get worse because of that.

The supply element of it - clearly we're seeing more supply come on stream in the second half the year in 2023, so a little bit more of an equilibrium between supply and demand. But I think the most important factor that is going to cool off the market, if you will, is the fact that governments have indicated their willingness to implement new measures to cool the market. And the area the market that they're really targeting is investors or speculators. It depends what study you're looking at and what area of the country you're focusing on, but the investor has represented 20% to 40% of the purchases over the last at least 12 months; which is very high by historical standards. Now if you take out the investor, because at some point in time, the difference between a homeowner that just wants to have a roof over their family with the investor that wants to make money, the math has to make sense, and it has to make sense rapidly. So you have a combination of rising mortgage rates and potentially some federal government measures and let's face it, rents can't keep going up at the rate they've gone up, so the math may not be there to the same extent for investors. They might be a lesser factor in the market and I think that it will be the primary factor or it'll be a cool off. Now, that doesn't mean that markets will collapse. We don't think so because supply will still remain relatively tight and demographics will remain favorable and let's face it, the majority of immigrants end up usually in the major urban centers so there'll be the continued pressure there, but the investor may be a lesser factor in the market. And that could mean a return to that equilibrium and that price increases could still happen but not to the magnitude that we've experienced. That would be probably, a scenario that we think would be likely in the next couple of years.

Jose: Okay Laura, the only thing I can add to this question on the Canadian housing market is as a New Yorker and a New York Ranger's fan, I am really hopeful that several Vancouver Canucks will be selling their homes soon. So, that's my only comment there, coming from New York.

Marc: I don't know what you say to that.

Jose: I'm going to get some hate mail for sure now, Marc. *[laughing]*

Marc: More you're going to get some questions. Make sure you know who to direct these questions too. *[laughing]*

Laura: I think our contact information might be shown at the end of this presentation…we'll see! *[laughing]* Thanks for that Marc. Just continuing with some of the questions that are coming up… Jose maybe I'll turn this over to you for your view on China and performance - let me hear your thoughts.

Jose: So the Bank moved to neutral because of what was going on in the regulatory environment and problems with developers and the People's Congress is coming up; so, we're expecting to see some major announcements coming from the government. What we expect to see is announcements in terms of the developers, what they plan to do to help lower rates, keep the housing demand strong and therefore help bolster some of those companies; as well as some issues with those local developers. So we're expecting to see some policy response from the government. If you look at the market, it's extremely attractive from a valuation perspective and to Marc's point earlier, if you look at emerging markets (EM) and markets in general but EM in particular, it is very diverse, and some of these sectors are absolutely booming while some sectors; they're not doing as well. So, we have certain sectors in China that we like and where we think we could see very good growth going forward. And as a result, we could see an environment here very quickly, if the policy response is right, to help shore up some of those issues. And if the regulations ease a bit, which we think will happen in the not too distant future, China becomes a much more interesting place to invest in terms of the emerging markets landscape. But, broader Asia, extremely interesting. You don't have to necessarily get embroiled directly in what's going on in China so you can do what I like to call "proxy investing", which is investing in other countries in the region that are working with China or taking some of that competitive advantage away from them. So, we see a lot of opportunity in the region and I think China will look a lot more attractive in the not too distant future; that's our view.

Marc: I'll add a couple of things, and it's probably disappointing to our audience that you and I continuously agree but, it is what it is.

Jose: You're a Ranger fan too? *[laughing]*

Marc: No, we don't always agree, I guess. So, three things for me… I think part of the attractiveness comes from three factors. The first is that the Bank of China is easing monetary policy as opposed to other countries that are tightening and that is supportive; therefore, China is being responsive to the deceleration and economic activity in that country. The second one is what José has alluded to, essentially the attractiveness of the markets and that markets have underperformed. A few investors realize that the gap in performance between the developed markets and the emerging markets in general and China in particular, is the widest it's been in years. In other words, the underperformance of China, for all the reasons that we know and you've just articulated Jose is quite significant and probably overdone. That doesn't mean there's no risk. Clearly, there's still risk of course in an environment like this, but we can see some attractiveness. The last thing that I think may translate into flows into Asia is that Europe may underperform for a while. With what's happening in Europe, there might be a reallocation by especially institutional investors to an underperforming region like China - sorry, Asia in particular - because that economy is not affected by some of the factors we're talking about which is mostly war and a spike in energy prices coming from Russia; specifically, to Germany and other jurisdictions. Those are not really primary factors in Asia, so, we could see some flows going to Asia from Europe primarily because of that factor. Therefore, three reasons in addition to what Jose mentioned. Thank you.

Laura: We have a few questions on the energy sector in Canada. I really want to get your take, Marc, on the perspective of the Canadian energy sector, given that energy prices are soaring. The view of energy stocks and where they're going.

Marc: Well, obviously you've had a fabulous spike with Western Canada Select. I saw earlier [it] reached $100 today, if I'm not mistaken, which is just absolutely remarkable. And the gap between WTI and the WCS is narrowing, so clearly the sector is having a fabulous year that's likely to continue.

Clearly with a spike in energy prices, we're going to be a little bit cautious because there might be a bit of froth out there, as everybody is just recommending and going to the same trades – that's the only thing I would caution. But in terms of the long-term prospect, I think those prospects are fabulous. I think the cash flows are enormous – it's the only way to put it! And I think the majority of companies in the sector are hiking (and are going to hike) their dividends quite significantly for years to come, so it might be a very good trade.

In the long term, I would just be a little bit cautious about putting both feet in the sector today, considering where we're at. But certainly any pullback of any kind, and even easing into the sector on an ongoing basis, we should do really well.

Jose: So, in terms of energy here, clearly the regulatory environment has become more difficult and more costly. But assuming that doesn't change, to your point Marc, earnings look good; multiples are still very low – these are still cheap companies. And especially as energy companies begin to drill more, I think you'll see energy companies, as well as regional banks, should do well in that environment. So I just wanted to throw that in, in terms of the US perspective.

Laura: No, that's great thank you. A follow-up question: I guess, Marc, you mentioned about the dividends being hiked in the energy sector. We had a question around should investors be considering higher-dividend stocks like energy and financials more so than bonds?

Marc: Well there's a lot of reasons why investors should consider dividends. Clearly dividends are far in excess of income yield in this country. You still can get easily 3-4% depending on the company, which is much in excess of what you're going to get on deposits or bonds for years to come, probably.

We all know, at least with Canadian dividends, that there's a tax advantage. Jose you may not know that, but that's another critical element of it. I think the focus has to be on the companies that have a cracking chance of growing their dividends – not just paying a good yield but growing their dividends – because that's where the bulk of the opportunity will be for investors. But i would say, and of course it depends on the investor's objective, if you don't need dividends, if you don't need income, maybe you want to be more growthy than in conservative dividend paying companies. So it's very much a function of the investor's preference as well. But notionally I would say, whether it's in the financial sector or energy sector – and even some telcos, which of course are less attractive – there's very attractive yields to be had…and I think good dividend growth going forward.

Jose: And Laura, if i could just add to that, I think dividend investing makes sense at this point in the business cycle; in particular, with the slower growth, especially where there's really no comparison as Marc just mentioned. A lot of our income and fixed income investors are looking increasingly at income streams from dividend investing and equity markets, so I think the possibility of special dividends this year is something that our team here in the US is very focused on as well.

The other thing I would add in the energy space is with prices at these levels, remember we are very focused on sustainability; very focused on the green economy. And to sit here and just focus on the petro business is one thing, but you have to look at economy 2.0. You will see increased amount of investing, especially at these levels in green investing. Alternative energy becomes far more viable with WTI and Brent at these prices, and i think those stocks should benefit from that as well. So it's another thing to consider when you're looking at energy.

Laura: That's great. Yes, I have a follow-up question around how does one balance the desire say for yield or returns against the transition to a lower carbon economy?

Marc: Well, so you use the word "transition," which is absolutely fundamental when investing in a sustainable portfolio. Because in the old days, you just divested from polluters because that does not help you achieve a sustainable objective in your portfolio. But of course that can result in a substantial underperformance to the market, and the environment we're in today, perfectly illustrates that when you see the performance of the sector.

Transition relates to companies investing in a more sustainable operating model. And as investors, what we don't want to divest from these companies; we want to give them the ammunition and the motivation to continue to invest and transition into a more sustainable way of doing business. This is where the upside is. And of course the upside is also from a sustainable standpoint from a climate mitigation standpoint. Renewables of course are up front and center, but investing in good quality companies that are spending an inordinate amount of money over a five or ten-year plan to reduce the carbon intensity and be more sustainable is really critical for us to achieve as a community of nations for a more sustainable environment.

For investors there are three ways to look at sustainable investment or ESG. There's enhanced investing, which is basically investing in a portfolio of companies that are tilted to generate a higher ESG score and have a lower carbon intensity than the broader market. You can also invest in thematic strategies, whether it's renewables or otherwise. And lastly is impact investing, so actually investing in strategies that enable the issuers to offset their carbons, called carbon offset, by investing in those specific strategies. So there are a lot of different ways for investors to actually shift their portfolio into a more sustainable strategy without necessarily giving up returns, which is absolutely critical. I would add, finally, that the best companies, the more sustainable companies, the best citizens in the corporate world, tend to attract more and more capital and tend to outperform more and more, which is really a good development because that means there is a meeting of you know sustainable objectives and investment.

Jose: If I could add one quick final thought. I call it activist alpha. You know, seeing two stocks that are similarly valued but one is more in line with my value set, so I’ll buy that stock instead of the other. So you’ll see more of wanting to get alpha in the ESG space focus based on your value set. You'll see that come through more and more over the years.

Laura: Great point. Alright guys, we're in our last minute. If you can provide very quick views on CAD versus USD. Where are the currencies going?

Marc: Traditionally, the irony is we've got two factors at play: One is a positive; one is a negative. The negative is the risk or volatility. This is an environment where there's a flight to quality, to liquidity. So usually in a normal environment that would mean the US dollar would do better against the Canadian dollar. Now, because this is coinciding with rallying commodities, rallying energy – everything that we have in this country to a great extent – that's actually a positive for the Canadian dollar. So it's not a perfect picture. But I would say the balance of factors is actually positive for CAD and it should be well supported.

To add one more thing, the Bank of Canada is likely to tighten a bit more than the Fed; therefore, you'll have that spread which already exists to the US dollar. So the combination of these factors suggests to me that the Canadian dollar is going to be well supported over the foreseeable future.

Laura: Alright, and with that I'd like to thank you both for sharing your time and insights with us today. And thank you all for joining. Our main priority is caring for your wealth needs and we hope you gained valuable insights from today's webinar. I encourage you to reach out to your Relationship Manager to continue the conversation and answer any questions you may have to help you stay the course, or course correct, to bring you closer to achieving your financial goals. So thank you again for joining. Stay safe and be well.

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