TD Wealth

2024 Investment Strategy Conference

With keynote speaker Christopher James of Blackstone

Monthly Perspectives
February 2024

15 minutes

2024 Keynote Speaker: Christopher James

Fireside chat with Christopher James, Chief Operating Officer of Blackstone's Tactical Opportunities and Chairperson of BXPE, and Chief Wealth Strategist Brad Simpson

One of the highlights of this year's conference was our sit-down interview with Christopher James, Chief Operating Officer of Blackstone Tactical Opportunities and Chairperson of Blackstone Private Equity Strategies (BXPE), one of the largest private asset managers in the world.[1] Since joining Blackstone in 2006, James has launched a number of new investment products as well as the firm's IPO and investments in GSO, Pátria Investimentos and Strategic Partners. Chief Wealth Strategist, Brad Simpson, engaged in a fireside chat about the issues and opportunities facing private asset managers today.

Simpson: Thanks so much for joining us today.

James: I'm very happy to be here. Canada is quite important to us. It's our third biggest market, so needless to say, I'm always excited to be here. I appreciate the warm embrace for a New Yorker.

Simpson: Maybe you could just start by walking us through private equity as an asset class. What are the areas of exposure where you've seen the buildout and the opportunities over the years?

James: Sure. So, we've been doing private equity for close to 40 years. And the premise was, and still is, that we think private equity is an allocation that every investor should have in their portfolio, principally for what we believe are two reasons: one is that it can provide better access to investment opportunities; and two is potential for returns.

On the access point, 86% of companies with $250 million+ in revenue are private, while only 14% are public.[2] As an investor, you're often trying to get the broadest opportunity set. And then you think about the S&P 500, and as we've seen for the past year, and even before that, the bulk of the return has been from these Magnificent Seven tech stocks, based on Blackstone analysis of S&P 500 and publicly available data. So, compare that to the private markets, where there's this vast

set of investment opportunities with a variety of businesses that may not be available in public markets. We're not saying private equity should displace public markets, but we believe there should be an allocation to help provide exposure to that investment opportunity set.

And then two, which is probably more important, is the potential for returns. And there's data and information validating the fact that private markets, particularly private equity, has outperformed public-equity markets.[3] I mean, if you looked at over 15 years or so, private equity has outperformed public markets by 600 basis points annually. So public equity, 6% return, since 2007, 2008; private equity, 12%, and that's 12% for private equity.[3]

Simpson: I have this working assumption that, for the most attractive deals that are out there, it takes some scale, it takes capital, it takes knowhow. Maybe we could walk through an investment opportunity that wouldn't have been available to a smaller player. And then how does that work? What's the flow of investment and buildout?

James: That's a great question because there is a competitive environment for private equity. There are a lot of sponsors out there. Today, we believe you need to have entrenched durable advantages to compete in private equity. So, for us, that has been data and the credibility of our brand. As an example, in 2018, we did a corporate carve-out of Thomson Reuters' financial and economic data business, which is now called Refinitiv. That was a $20-billion transaction and the company was family-owned. And I would argue there were not many sponsors in 2018 that could transact at that scale — not only in terms of capital, but also in terms of the credibility to transact with that family, keep them in the deal, and then optimize that asset. We improved its management. We improved its cost structure. But we also grew the business. We helped bring it to new markets. We created a whole desktop workplace product for Refinitiv that they hadn't had before. We improved their data-harvesting capabilities. So, there were a bunch of things we believe we did that enabled us to then sell it to the London Stock Exchange for $27 billion. That's relevant because we think it speaks to the strengths we have.

Simpson: If you read the Financial Times or the Wall Street Journal, there is going to be an article somewhere within the first three pages that say, well, the easy times for all this private stuff has come to an end. And then usually a few more pages in, there'll be an article about how there's a lot of repricing that needs to be done. Maybe you could give us some context on those two things.

James: Sure, I think that may be true. The whole idea that we can all ride on the crest of a beta market — on the back of multiples just increasing — we think those days are over. It used to be that you could buy a business, optimize its capital structure and just wait for multiples to expand and sell it at a gain. Needless to say, we believe things have shifted. That beta mentality, I think, is over, and it speaks to a more alpha "create the winners" type of investment environment where you need real knowhow and a view and an angle and an edge. For us at Blackstone, we think about our edge across three facets. One is we have a reservoir of data and IP that I think is unmatched. The second is that, again, we invest at scale. We believe there are few that can invest in the upper atmosphere where we invest. And then three is the capabilities we have in terms of actually transforming these businesses and improving their go-to-markets. We have data scientists, we have a capital-markets team, we have a portfolio operations team. We engage with these businesses and not only try to improve their margins, etc., but also try to grow their revenues. We help bring them to new markets. We help create new products. And so, you bring those three things together — that is how I think you need to compete in today's market.

Simpson: When you look at this environment, the next few years, where do you think the opportunities in private equity and alternatives are going to be? Where are you going to be allocating, and what are the entry points for those areas?

James: We're generally focused on sectors that are growing more than inflation, more than GDP, and as we invest in those sectors, we'll try to manage those businesses in the context of a more uncertain, more volatile environment. Big themes for us today include AI — we did a big AI investment quite recently — and not just in companies that are developing these large language models. We're investing in the picks and shovels behind this AI revolution. So, digital infrastructure, data centers, chips. That AI digital infrastructure theme underpinning this revolution is quite big for us, life sciences, particularly. If you think about the intersection of increased compute power and what you can now understand in terms of how proteins fold and how amino acids are made, combine that with the demands of the demographic of ageing populations and increasingly personalized medicine. You bring those two things together and we view it as a cocktail ripe with potential investment opportunities. More drugs are likely going to need to be developed for more communities. And we have a life-sciences team that includes PhDs and medical scientists that are also investors. And so, we believe that may be an advantage for us in that space. We're also active in the energy transition. I think that's an inexorable trend that is big in Canada as well.[3] E-commerce is another big theme for us. We've invested in notable businesses that we think may likely benefit from the growing trend of consumers buying things off the internet. So, again, another inexorable trend.

Simpson: We have clients with assets in the range of $1 million to $5 million. They have good net worth, but they might not be able to have their capital tied up for seven to 10 years. Could you walk us through how a client like that can gain exposure to private assets and what those investment flows would look like?

James: Sure. We have a long history of doing drawdown private-equity funds, where an investor makes a commitment and that commitment is drawn over four or five years. And ultimately that capital is invested in deals as they emerge. That product exists, I think it's a great product with limited demands on that liquidity. What we've been trying to do for the last 10 years is this whole kind of "democratizing alternatives." We believe we've been really on the front edge of trying to create products for the non-multi-billionaires. That client maybe has $10, $15 million of investable assets, but is not necessarily fluent in private equity, and they may have a variety of liquidity needs here and there. Last quarter, we launched our private-equity product, Blackstone Private Equity Strategies, or more commonly referred to as BXPE, and what that product is trying to do is to provide exposure to our private equity products. So an investor may make one investment, and potentially get exposure to investments we make across our 15+ equity strategies. We're presenting this product in the context of private equity. This isn't an ATM, it's not an ETF. We think the real benefit of private equity is the compounding. For example, you put your dollar in, and 10 years later you'll have three and a half dollars, and so on.

Simpson: I love that. Democratizing alternatives.

James: That's the future.

Simpson: Christopher, thank you so much for taking the time to talk to us today.

James: It's my pleasure.

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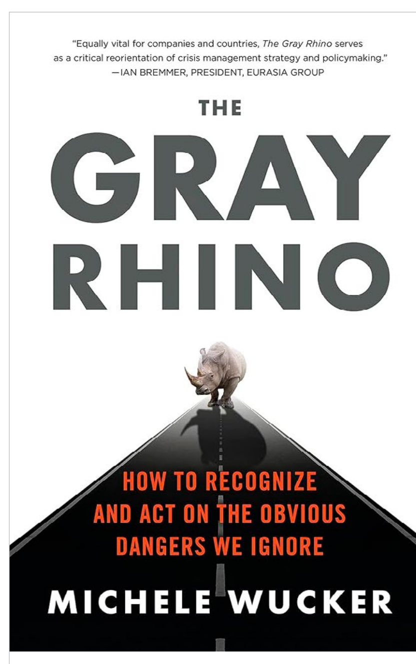
[1] Largest global alternative asset manager reflects Preqin data as of September 30, 2023.
[2] Capital IQ; based on global data available in Capital IQ's database, August 2023. Measuring companies with revenues of $250m+ annually.
[3] Cambridge Associates, Pooled Return (LP) (%) as of September 30, 2023.
[4] Fostering Effective Energy Transition 2023, World Economic Forum, as of June 2023.

Gray Rhino

Brad Simpson, Chief Wealth Strategist | TD Wealth

I decided to try something a little different at this year's Investment Strategy Conference, held at the Four Seasons in Toronto on January 15. The theme of the conference was "Gray Rhino," a metaphor from the 2016 book of the same name by Michele Wucker, which describes an easily predicted market disruption that, nevertheless, is extremely difficult to avoid because of our own human tendencies — think of them like Black Swans that you can see coming a mile away.



One of these so-called Gray Rhinos is the advent of artificial intelligence, which threatens/promises to change the way business is done across large swathes of the economy. So, to give people a sense of just how quickly things are changing, I decided to have an AI to welcome me to the stage. As I stepped up to the podium, a voiceover — a voiceover with my voice — announced to the attendees:

"Welcome to the 2024 TD Wealth Annual Investment Strategy conference, 'Gray Rhino,' which is all about the big risks that we know are there, and yet we do nothing about them."

Then it said the same thing in perfect French, Hindi and Cantonese, despite the fact that I speak none of these languages. That little demonstration was meant to illustrate the theme of the conference and send a clear message to the audience: major market disruptions are coming. We need to prepare.

According to the book, a Gray Rhino has five stages:

The first one is **Denial**, which in terms of AI probably occurred in late 2022. The denial period was short, however, given the stunning possibilities that quickly became evident.

The second one is **Muddling**, which can be thought of as casual discussion, watercooler chitchat. Nobody at this stage is considering any action yet. We're probably nearing the end of it for AI.

The third stage is **Diagnosing** the issue, which is a more official form of discussion (although similarly ineffectual). It's the equivalent of going to Davos and organizing panels to explore the issue.

Fourth and fifth are the **Panic** and **Trampling** stages, both of which are self-explanatory.

The question you are no doubt asking yourself is this: why, oh why, do we allow ourselves to be trampled? The answer is that, when enormous investment challenges rear their heads, we as investors become (to use another animal metaphor) like deer caught in the headlights — or in this case we're caught in the gaze of that Gray Rhino. The issue is so big, so daunting, that we're paralyzed by it. We play dead in hopes that the beast will leave us alone.

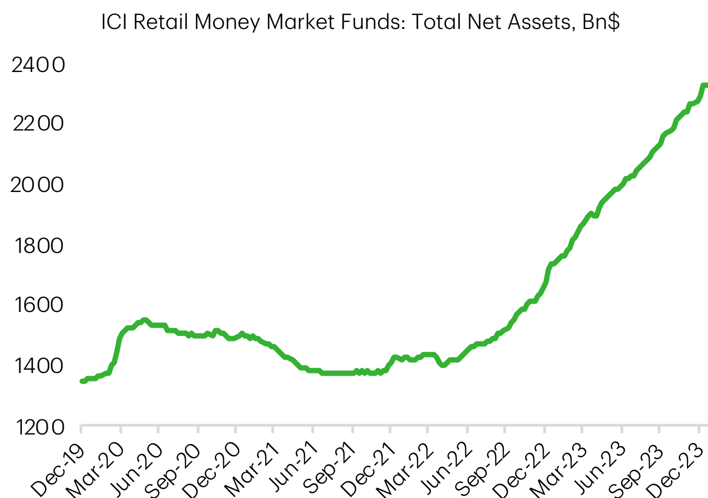
How to dodge a Gray Rhino

There is, however, a solution. According to the book (as well as our own investment philosophy), the way to avoid a Gray Rhino is to have a decision-making process in place that bypasses our blind spots and our emotions and other human tendencies toward inaction. That's what Wucker's whole book is about — creating a decision-making process for how you're going to act when that rhino is running at you at full speed.

Now, let's bring this metaphor into the real world. Ask yourself, in an era where we have deglobalization, climate change, the threat of global warfare and artificial intelligence, how are investors likely to respond to the volatility that's to be expected? Do they have a process that will allow them to bypass their immediate urge to panic-sell?

Unfortunately, it doesn't take much to conclude that many investors do not. For evidence, just look at the stampede into GICs and short-term deposits that occurred throughout 2023. As investors fretted about historic rate hikes and the threat of recession, they loaded into short-term deposits and money-market funds (Figure 1). Investment Company Institute data on money-market funds show significant growth starting in mid-2022, with total assets almost doubling in less than two years.

Figure 1: Flight to Money Markets



Source: Investment Company Institute, Wealth Investment Office, as of January 15, 2024.

You could argue that the move into cash was itself a defensive reaction. I would call it a defensive overreaction. The fact is, cash underperformed other asset classes last year and as such, investors who held large cash positions likely experienced lower returns (Figure 2) due to their lack of a decision-making process.

Now, in their defence, people last year were reacting to two unusual events — a global pandemic (which could be considered a Black Swan event) followed by an unprecedented spike in interest rates (which many investors today have never experienced). These types of events are the most challenging for investors because they come out of the blue. They are not like the Gray Rhinos that we can spot way in advance. Still, the recent move into cash offers a pretty clear indication of where we're headed if we can't create a decision-making process that will bypass our urge to overreact.

Letting the process decide

So, how do you build a decision-making process? There are numerous structures and mechanisms that we'll get into in a bit, but the first thing any investor needs is a *trusted advisor.*

That may sound self-serving, but it can't be overstated. Few of us can understand our cognitive biases, and none of us, by definition, can see our personal blind spots. That's why you need a professional investment manager who can act as a co-pilot — plotting an efficient flight plan, providing high-quality information about changing weather patterns in real time, and serving as a sober second opinion when some turbulence triggers panic.

Your TD Wealth advisor also benefits from being part of a large and storied institution, with some of the most experienced economists, portfolio managers, analysts and strategists. All that experience and skill — all that history — is responsible for the structures and mechanisms that have been created to ensure that our decisions are grounded in a thorough and time-tested process.

That process begins with an investment philosophy, something we talk about a lot at the Wealth Investment Office. The philosophy isn't a strategy, in the sense that it doesn't tell us what to do. Rather, it tells us how to think, and what principles we should pursue. These principles are universal and timeless truisms — immovable touchstones to remind us of our ultimate objectives. Our philosophy is called Risk Priority Management, and you can read it by clicking here.

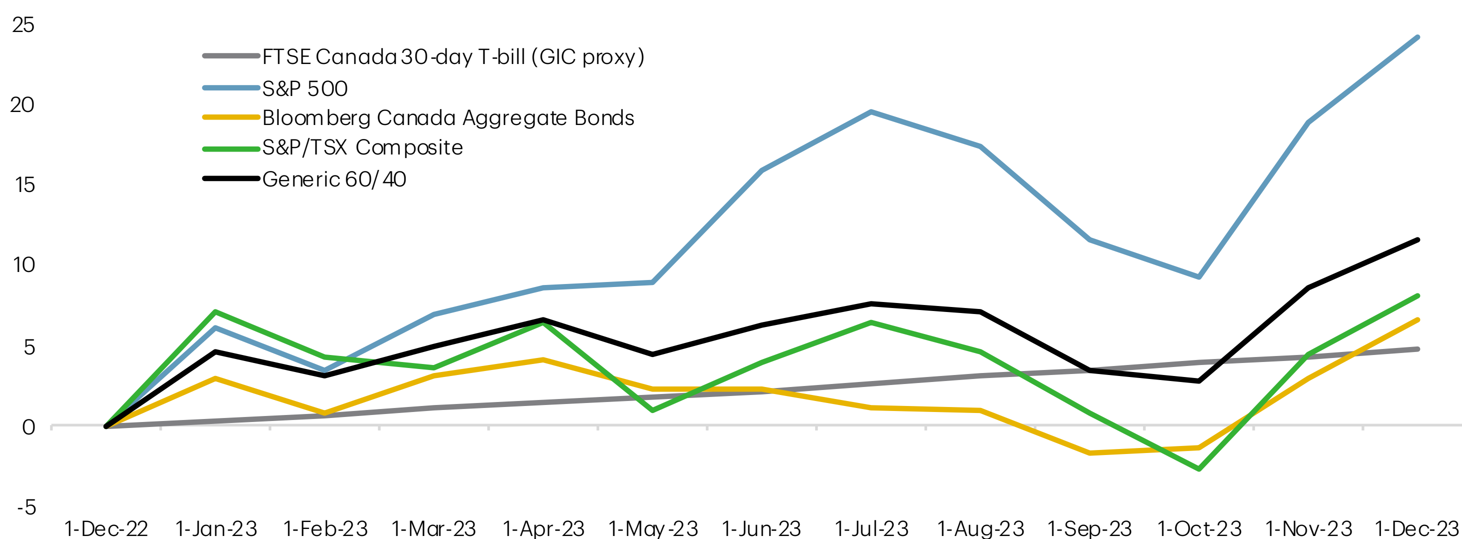
The next step is to construct a portfolio with the right mix of assets. Of course, every portfolio will be different, depending on the investor's risk tolerance (how much volatility they can stomach) and risk capacity (how much volatility they can afford). We start, however, with a baseline allocation that is built by three separate committees: the wealth asset allocation committee (WAAC); the wealth investment policy committee (WIPC); and the wealth investment management committee (WIMC).

These three committees can be thought of as high-level, mid-level and ground-level:

WAAC meets every month to adjust their mid-term outlook based on the current economic, monetary and geopolitical environment. The committee provides general recommendations for asset classes (like fixed income) and sub-classes (like government bonds).

WIPC then takes these recommendations into account in assigning specific percentage weightings for each risk profile, both for short-term tactical purposes and long-term strategic purposes. What you end up with is a grid that provides guidance for exactly how much exposure to a particular

Figure 2: GIC Underperformance in 2023



Source: FactSet and Wealth Investment Office, as of January 15, 2024.

asset class is advisable for each type of client, subdivided by risk tolerance and short-/long-term emphasis.

Finally, **WIMC** conducts due diligence required to match exposures to specific solutions, providing recommendations about what investments to buy in order to get exposure to emerging-market debt, for example, or high-yield credit.

All of this structure is in place to ensure that, when a market disruption occurs — whether it's a Black Swan or Gray Rhino — advisors know exactly how to react. Clients who then place trust in these advisors are, over the long term, rewarded with sound, professional investment management.

We need to keep all of that in mind as we enter an environment where there are likely to be quite a few Gray Rhinos headed our way. Is that an exaggeration? Well, consider: Today, investors are concerned with whether artificial intelligence will replace the workforce; whether deglobalization has brought us to the brink of world war; and whether dramatic climate change will render all other considerations moot. Those are some pretty big rhinos.

The Year Ahead: Responding to Rhinos

Last month, we published our "Year Ahead: 2024" document, which lays out a baker's dozen of themes we think are going to be important in the coming year. For a full analysis, click here to read the report, but here's the executive summary:

1. 'Friend-shoring' will continue as deglobalization takes hold. There will be winners and losers from the shift in trade flows, with several emerging-market nations benefitting from the "China plus one" strategy.

2. Defence spending to rise amid heightened tensions. During times of war, governments tend to spend more on defence spending. On the other hand, the risk of armed conflict may depress sentiment in certain regions, with long-term implications for the creditworthiness of nations.

3. Commodities to outperform. The transition to renewable infrastructure will require an enormous influx of raw materials, which should boost prices. On the energy side, meanwhile, worries about renewables may be exaggerated.

4. China to recover from its economic woes. We think the Chinese economy has hit its cyclical bottom. Growth numbers have been improving over the past quarter, and we think they'll continue to do so.

5. A Trump win could dramatically alter the landscape. We're not calling the election, but with Trump leading in many of the polls, we are preparing for the possibility of a second term and what that would mean for the U.S. economy and global markets.

6. Hedging amid heightened geopolitical uncertainty. Our work suggests that oil and gold offers perhaps the best hedge against geopolitical risk.

7. Reaching target inflation will be a hard slog. We think the easy gains on the inflation front are behind us and the trek back to the Fed's 2% target will be slower.

8. Fixed income to rebound from a volatile year. Our conviction for bonds remains strong. Current yields are at levels not seen since the early 2000s and the bond market is well positioned to deliver attractive returns.

9. Higher interest costs to dampen consumer spending and borrowing. Higher interest costs have led consumers to delay debt repayment both for mortgages and other loans. It's highly likely that growth in disposable income will slow, which would have a large impact on consumer spending.

10. Development of AI to power ahead, despite any slowdown. We don't believe the AI sector will be immune from an economic downturn; however, the promise is such that healthy cash flows arising from new investment dollars will propel the industry toward rapid development.

11. Real estate performance to remain divergent. While vacancy rates for traditional offices in the U.S. are above 20%, and rents are under pressure, there are many other areas in the sector that have appeal. Demand for data centres, for instance, is being driven by cloud computing, content creation and the AI revolution. In this sector, nuance is everything.

12. Equity volatility likely to rise. Given the historical time lag between monetary-policy tightening and its impact on the broader economy and financial market, plus the prevalent unstable geopolitical environment, we will likely see increased equity volatility in 2024.

13. Private assets present opportunities amid higher rates. Private debt may enjoy one of its best return environments since the global financial crisis. Institutions are holding historic amounts of cash after the pandemic, creating an excellent opportunity for new entrants.

And there you have it, our themes for the year. You'll notice that most of these are directly related to those Gray Rhinos I keep referring to: artificial intelligence, deglobalization, geopolitical ruptures, global conflict, climate change. We all see them coming, but few of us are actually drawing up plans for how we're going to react when these events start to create waves in the market. Instead, what we see around the world today is what Michele Wucker would call "diagnosing." Political leaders are getting in their private jets and sitting in rooms to talk about it. Academics are poring over research and relaying their findings to nodding bureaucrats.

But for those of us with institutional-grade investment expertise at our disposal, we're doing more. We're implementing the decision-making process that will inform our long-term strategies. This positions us well to execute sound tactical maneuvering on the margins and helps us to sidestep the trampling.

Economic and Financial Outlook

Wealth Investment Office | TD Wealth

Beata Caranci

We were honoured to have TD's Chief Economist, Beata Caranci, open up our January 15 conference with a high-level overview of the economic landscape, particularly as it relates to the United States and Canada. Below you'll find the broad strokes on some of their current thinking, which we'll revisit with a deeper dive in the March issue of *Monthly Perspectives.*

- The media and analysts often point to the resilience of the global economy, with the U.S. as a stand-out on that narrative. Pushing the boundaries a bit, let's explore whether the U.S. has tripped over the boundary of economic resilience and moved into exceptionalism. This requires some permanent defiance of economic laws and carries a different implication for the policy path. It would see a deceleration of inflation absent economic pain.

- Last month, Federal Reserve Chair Powell said strong economic growth is not a problem, as long as inflation continues to unwind. This challenges even the notion of a 'soft' landing. Are we in a world of a no-landing glide path? If so, how sustainable could it be?

- And then there's the Bank of Canada, which is caught in the opposite world of a deteriorating economy and a slow deceleration in inflation, perhaps bringing to mind more of a classic stagflation scenario. The January CPI data delivered a welcomed downside surprise, but one month does not make a trend. And it's not going to be enough to prompt the Bank of Canada to leap into lowering the policy rate to resuscitate the broader economy.

- My main concern is how long will the Bank of Canada stay boxed in by high shelter costs that prevent the right-fitting of monetary policy to the performance of the rest of the economy?

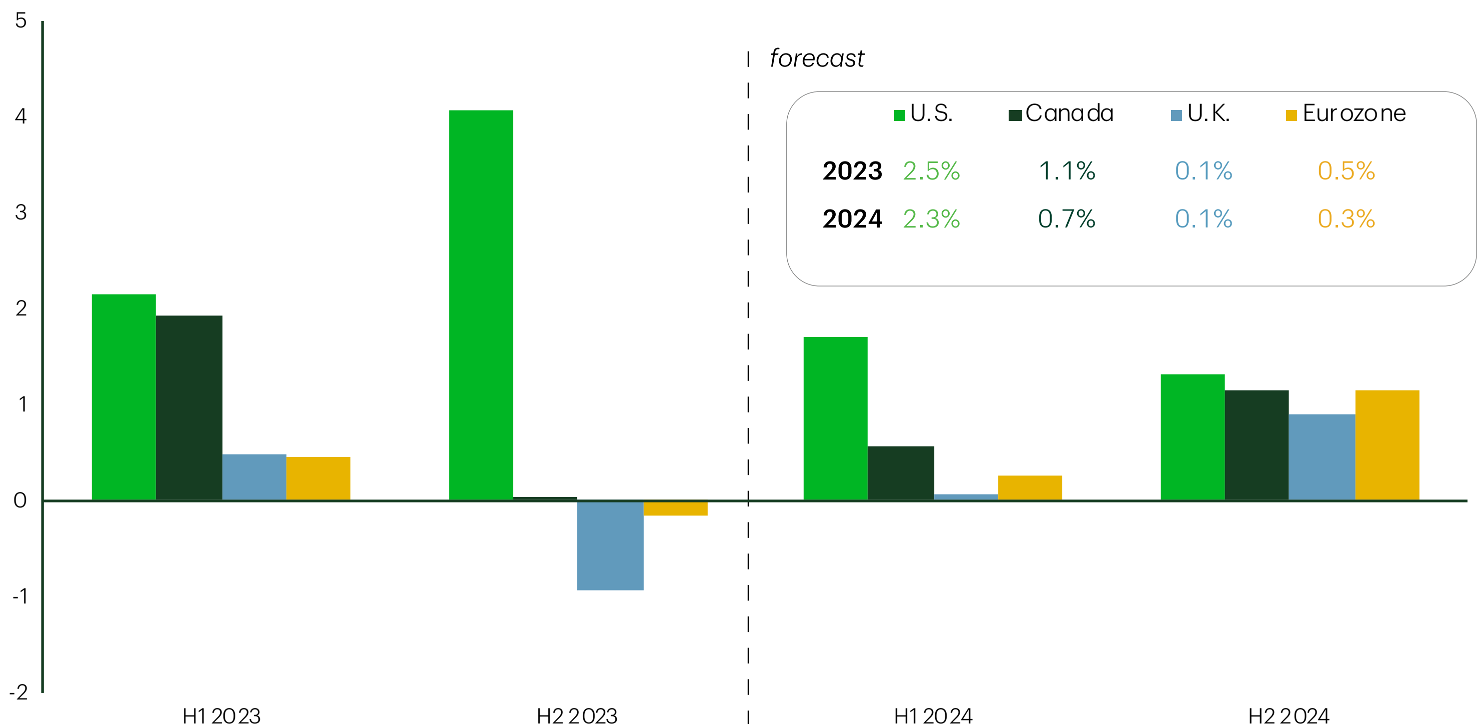
American Economic Exceptionalism Is Unrelenting

- Let's start with a graph to capture the growth divergence of the U.S. to other countries. That divergence was expected to narrow in the first half of 2024. It does look to be doing so but not to the degree forecasters expected, including us.

- US GDP growth of 2.3% in 2024 will nearly match last year's pace. This assumes a step down in growth as the year progresses, which these days has become a forecast risk given the exceptionalism that continues to be displayed.

- As for Canada, the economy underperformed our expectation last year, but the deviation was well within the margin of error and did not alter our 2024 outlook. The same is true for other regions in Europe.

Figure 1:American economic exceptionalism is unrelenting

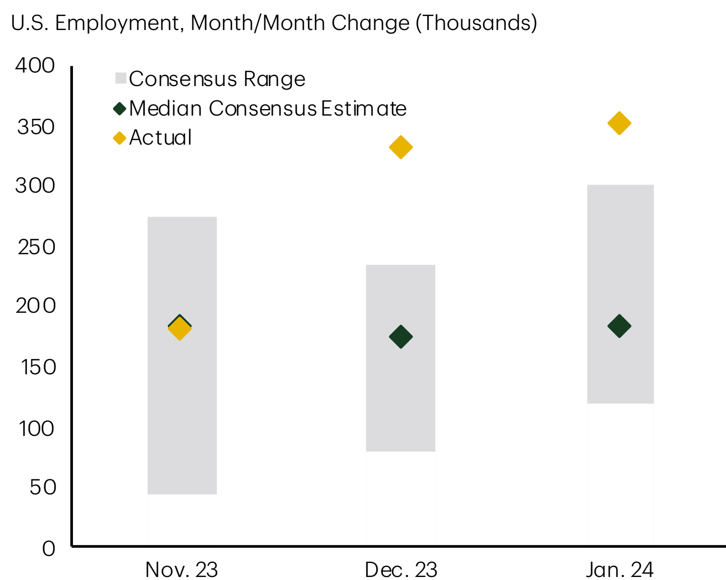


Source: National Statistical Agencies, TD Economics.

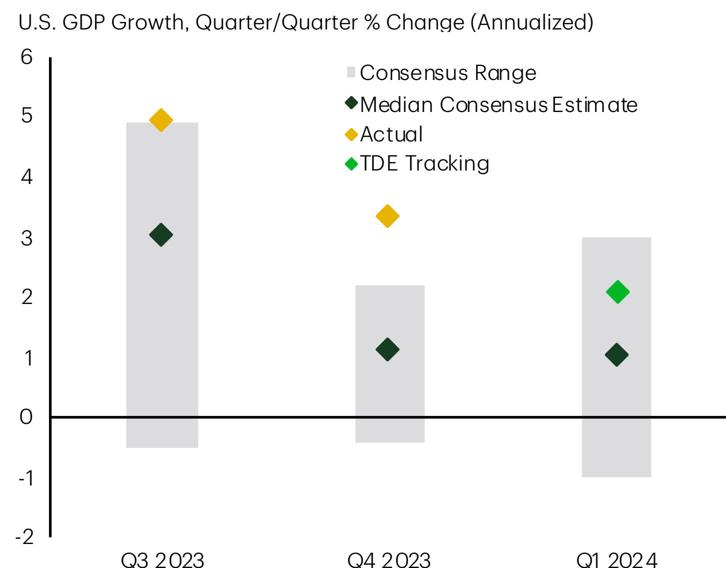
U.S. Forecast Misses Hit Embarrassing Levels

- I'm not mincing words by referring to the forecast misses as "embarrassing".
- Other countries are conforming to model dynamics as the pandemic distortions recede. This means that traditional interest rate relationships are carrying more predictive power.
- This is not the case for the U.S. where the misses on the forecast have become larger, and I've characterized them as embarrassingly large given the stage of the economic cycle that should produce more intuitive results.
- The gray bars represent the range of analyst views for jobs and GDP. The actual data overshot even the upper end of people's views.

Figure 2: U.S. forecast misses hit embarrassing levels



Source: Bureau of Labor Statistics, TD Economics.



Source: Bureau of Economic Analysis, TD Economics.

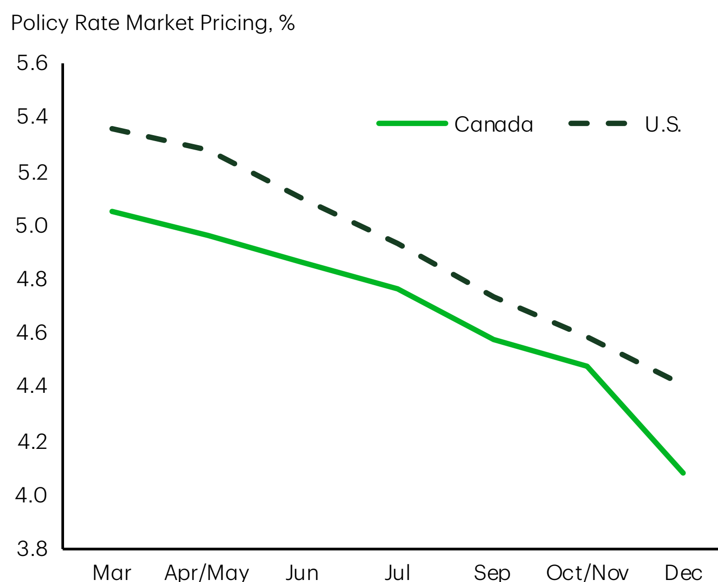
Market Pricing Has Strong Parallels

The Bank of Canada and Federal Reserve are in opposite worlds with their economies, but both carry similar messaging to markets.

1. The policy rate has already peaked.
2. Patience is required.
3. It's realistic to expect some easing in policy this year, but both central banks remain non-descript on the timing or magnitude.

- Financial markets are paying attention to this messaging and have meaningfully altered their rate cut expectations since the start of the year. For the US, expectations have been scaled back to remove nearly two cuts from the path in 2024. For Canada, it's gone in the other direction where a rate cuts were magnified to reflect a weaker economy and a positive inflation report in January.
- I think the market has it broadly right. It never made sense why the U.S. was priced so heavily, while Canada had the light touch. However, the U.S. still has the bigger burden of proof. It must show that either exceptionalism can be maintained on productivity and its link into inflation, or the economy will have to slow to growth patterns in the 1 to 1.5% range later this year. Right now, our forecast reflects the latter.

Figure 3: Market pricing has strong parallels



Source: Bloomberg, TD Economics. Data as of February 20th, 2024.

2023 Market Outlook: Positioning Portfolios for the New Year

Panel discussion with David Sykes, Michael Craig, Scott Colborne, Justin Flowerday and Colin Lynch | TD Asset Management

After our examination of the economy as it currently stands, we moved on to a more granular look at what the future holds and how the market is likely to interpret indicators on the ground. For that discussion, we convened a panel of esteemed portfolio managers from TD Asset Management: David Sykes, Chief Investment Officer; Michael Craig, Head of Asset Allocation & Derivatives; Scott Colbourne, Head of Active Fixed Income; Justin Flowerday, Head of Equities; and Colin Lynch, Head of Global Real Estate. As our panelists made clear, we've reached a point where patience, active management and a view towards global trends are likely to reap rewards.

Does the outlook for rate cuts contradict double-digit equity returns potential?

Flowerday: "I don't think we've ever seen six rate cuts, which I think is what the market is pricing in today [in mid-January], and double-digit earnings growth occur at the same time. Those two states are not really compatible."

Sykes: "It's really going to be about that multiple and whether we get that rotation into a whole bunch of stocks that really haven't participated in this move."

Early in the year, the market was expecting about six rate cuts and double digit earnings growth for the S&P 500. Flowerday and Sykes both think that number is optimistic. TD Asset Management (TDAM) has forecast closer to 6% earnings growth for U.S. equities. Flowerday says that the economic weakness that would be required for the Fed to cut six times would also pull down earnings growth expectations. A lot will be riding, according to Sykes, on whether investors, in the event of a market correction, decide to rotate into stocks outside the Magnificent Seven (Mag7) or reduce their equities exposure overall.

Likely to see better entry points ahead

Sykes: "We're really looking for a bit of a pullback here because sentiment is a little bit high at the moment."

TD's Wealth Asset Allocation Committee is neutral on equities. Fixed income is looking more attractive at the moment, according to Sykes. Lynch also highlighted infrastructure, where there are still attractive opportunities. Flowerday, for his part, provided a deeper dive, noting that stocks on the S&P 500 outside the Mag7 are trading at a reasonable valuation of 16 times forward earnings, whereas the index itself is trading at 20 times. The equity risk premium, at around 100 bps, is indicating investors have high confidence in the potential for earnings growth. Overall, however, the panel agreed that the market may be a bit overenthusiastic about tech and the potential for short-term earnings growth on the back of the AI revolution.

You need liquidity to respond, not necessarily cash

Craig: "We have a pool of tactical money, both in bonds, stocks ... that provides us tremendous liquidity to shift once we get more conviction about which way we're going. ... [But] you certainly don't want to be sitting in cash with yields where they are in the bond market."

Craig said he was in a "wait-and-see" mode, with plenty of liquidity available in the form of a tactical pool of capital. He noted, however, that preserving liquidity does not always mean holding high levels of cash, which he's not doing. Indeed, with bond yields as high as they've been, Craig says that investors would be ill-served by sitting on too much cash. Craig's tactical pool of funds is composed of a balanced mix of stocks and bonds that can easily be monetized should a better opportunity present itself. He suggests that high-quality corporate credit could be a good place to wait out some of the volatility that's expected over the short term. Over the longer term, however, he's bullish on "world-beating" U.S. equities.

High-quality credit is a great place to wait out the volatility

Colbourne: "Big picture, mid- to high-single-digit returns this year and a little bit more for credit. ... [High-quality credit] is a great place to hide out."

Colbourne echoed Craig's opinion on high-quality credit, but he provided a more nuanced take. According to Colbourne, corporate credit is already fully priced, having benefited form the tailwinds resulting from a lack of supply and heightened risk sentiment. That being said, he agrees that corporate credit is a far more defensive asset than equity at the moment. Investors should be looking, in particular, at credit with shorter maturities, given that longer-maturity credit will bear the brunt of volatility generated by headwinds like deglobalization and decarbonization. He thinks credit deterioration is still a few years away.

Geopolitical tension means thinking outside the box

Craig: "You need to think more than just bonds and stocks. You need to think about covering various outcomes. And so that gets you into real assets ... and commodities. ... Not only are there commodity shortages, but the linkages right now ... are under stress. ... On a longer-term strategic allocation, it's hard to see how that doesn't rectify in higher prices."

Craig picked up on Colbourne's point about geopolitical turmoil and how that may depress global growth over the longer term. He suggests that, in a multi-polar world where regions are no longer working together toward a common prosperity, investors need to start thinking outside the box. To Craig's mind, that means taking a closer look at private markets, albeit in a highly selective, active manner. It also means taking a look at commodities, where oil prices stand to benefit from global

conflict. Further, the dearth of mining investment over the past 10 years — alongside the powerful trend towards electrification — bodes well for base metals. While it's true that geopolitics could increase risk for individual players in emerging markets, investors can mitigate that risk by investing directly in the futures market.

Real estate is not a monolith; still as pockets of opportunity

Lynch: "The overarching message on real estate in the media is, it's bad. I would submit, not really."

Lynch, in response to a question about whether real estate had "reached its bottom," said it really depends. He points out that, even in the same city, there are areas of simultaneous boom and bust. That's why it's so important to take an active, selective approach in the private markets, particularly in real estate. Compare Toronto multi-family residential, where surging immigration is creating demand for apartment space, to Canary Wharf in London, where remote working has decimated demand for corporate office space. Infrastructure real estate, meanwhile, is set to boom as the demand for new facilities are propelled by electrification and artificial intelligence.

Infrastructure not as sexy as AI, but huge promise there

Flowerday: "AI is a significant growth factor, [but] the thing is, everyone knows that. ... We've got US$2 trillion in [infrastructure] spending that's been committed over the next decade, and this is providing a tailwind to a lot of unique industrial companies that we find interesting."

Lynch: "The area of greatest opportunity, in my view, is related to that energy transition."

Jumping off of Lynch's point about infrastructure, Flowerday suggests the buzz around AI may have limited fresh opportunities in the area. Hardware may still present opportunities, but Flowerday says that there are many more hidden pockets of opportunity in industrial infrastructure, where US$2 trillion has already been earmarked for investment. Lynch agrees, noting that companies involved in energy transition — solar panels, battery packs, wind turbines — are likely to see the most investment. The need is particularly acute given the war in Ukraine, where energy transition has become a practical necessity for European economies heretofore dependent on Russian oil. Higher defence spending, meanwhile, will put a strain on government budgets, thereby creating more room for private investment in the space. (In the UK, for instance, small, privately owned nuclear reactors are now under construction.)

Valuations seem high, but remember, we live in amazing times

Sykes: "There are amazing opportunities ahead. ... The next 10 years, it's going to be all about the companies that enable AI inside their organizations and what that means for margins and labour replacement. [But] we haven't talked about things like robotics, we haven't talked about human genome, we haven't talked about life sciences, we haven't talked about health and wellness. ... Companies are going to make a lot of money in those."

Sykes ended the panel discussion on a positive note. Although equity valuations appear high, he didn't want to leave investors with the impression that opportunities had dwindled. The era of cheap money may be over, but a new technological era has begun, and that will lead to amazing opportunities.

Market Performance

Canadian Indices ($CA) Return	Index	(%) 1 Month	(%) 3 Months	(%) YTD	(%) 1 Year	(%) 3 Years	(%) 5 Years	(%) 10 Years	(%) 20 Years
S&P/TSX Composite (TR)	84,500	0.55	12.30	0.55	4.62	9.91	9.57	7.59	7.62
S&P/TSX Composite (PR)	21,022	0.30	11.38	0.30	1.23	6.63	6.23	4.38	4.62
S&P/TSX 60 (TR)	4,160	0.53	12.89	0.53	4.90	10.78	9.94	8.24	8.02
S&P/TSX SmallCap (TR)	1,262	-0.37	8.38	-0.37	-4.12	4.28	6.71	3.74	3.60
S&P/TSX Preferred Share(TR)	1,789	5.81	16.78	5.81	4.47	2.22	3.88	1.95	2.35
U.S. Indices ($US) Return									
S&P 500 (TR)	10,501	1.68	16.01	1.68	20.82	10.99	14.30	12.62	9.69
S&P 500 (PR)	4,846	1.59	15.54	1.59	18.86	9.27	12.37	10.52	7.55
Dow Jones Industrial (PR)	38,150	1.22	15.42	1.22	11.92	8.36	8.82	9.29	6.67
NASDAQ Composite (PR)	15,164	1.02	18.00	1.02	30.90	5.08	15.80	13.96	10.48
Russell 2000 (TR)	10,392	-3.89	17.62	-3.89	2.40	-0.76	6.80	7.03	7.67
U.S. Indices ($CA) Return									
S&P 500 (TR)	14,069	3.00	12.04	3.00	21.26	12.75	14.73	14.73	9.74
S&P 500 (PR)	6,492	2.91	11.60	2.91	19.29	11.00	12.80	12.60	7.60
Dow Jones Industrial (PR)	51,112	2.54	11.48	2.54	12.33	10.08	9.24	11.34	6.72
NASDAQ Composite (PR)	20,316	2.33	13.97	2.33	31.37	6.74	16.25	16.11	10.53
Russell 2000 (TR)	13,923	-2.64	13.60	-2.64	2.77	0.82	7.21	9.05	7.72
MSCI Indices ($US) Total Return									
World	14,736	1.22	16.24	1.22	17.59	8.58	11.95	9.72	8.34
EAFE (Europe, Australasia, Far East)	10,755	0.58	15.80	0.58	10.58	5.11	7.44	5.27	6.03
EM (Emerging Markets)	2,518	-4.63	7.08	-4.63	-2.55	-7.15	1.37	3.25	6.76
MSCI Indices ($CA) Total Return									
World	19,743	2.54	12.27	2.54	18.01	10.30	12.38	11.79	8.40
EAFE (Europe, Australasia, Far East)	14,409	1.89	11.84	1.89	10.98	6.78	7.85	7.25	6.09
EM (Emerging Markets)	3,374	-3.39	3.42	-3.39	-2.20	-5.68	1.76	5.19	6.81

Currency									
Canadian Dollar ($US/$CA)	74.64	-1.28	3.54	-1.28	-0.36	-1.56	-0.38	-1.85	-0.05
Regional Indices (Native Currency, PR)									
London FTSE 100 (UK)	7,631	-1.33	4.22	-1.33	-1.82	6.00	1.83	1.60	2.80
Hang Seng (Hong Kong)	15,485	-9.16	-9.51	-9.16	-29.11	-18.19	-11.14	-3.47	0.77
Nikkei 225 (Japan)	36,066	7.77	16.87	7.77	31.98	9.24	11.67	9.23	6.22

Benchmark Bond Yields	3 Months	5 Yrs	10 Yrs	30 Yrs
Government of Canada Yields	5.02	3.40	3.32	3.26
US Treasury Yields	5.38	3.84	3.91	4.17

Bond Indices ($CA Hedged) Total Return	Index	1 Mo (%)	3 Mo (%)	YTD (%)	1 Yr (%)	3 Yrs (%)	5 Yrs (%)	10 Yrs (%)
FTSE TMX Canada 91-day Treasury Bill Index	452	0.46	1.27	0.46	4.81	2.37	1.89	1.35
FTSE TMX Canada Universe Bond Index	1,106	-1.37	6.39	-1.37	2.08	-2.89	0.75	2.01
FTSE TMX Canada All Government Bond Index	1,042	-1.60	6.37	-1.60	1.25	-3.45	0.30	1.74
FTSE TMX Canada All Corporate Bond Index	1,337	-0.68	6.48	-0.68	4.52	-1.27	2.03	2.78
U.S. Corporate High Yield Bond Index	282	-0.06	8.09	-0.06	8.36	1.32	3.67	3.98
Global Aggregate Bond Index	252	-0.25	6.23	-0.25	3.72	-2.37	0.74	2.04
JPM EMBI Global Core Bond Index	496	-1.30	9.51	-1.30	4.87	-4.55	-0.36	2.51
S&P/TSX Preferred Total Return Index	1,789	5.81	16.78	5.81	4.47	2.22	3.88	1.95

Credit Suise ($US) Total Return	Index	1 Month	3 Month	YTD	1 Year	3 Year	5 Year	10 Year
Credit Suisse Equity Market Neutral USD	318	0.83	3.30	0.83	6.75	5.16	3.43	1.71
Credit Suisse Event Driven USD	831	0.47	5.45	0.47	7.45	4.46	5.46	2.90
Credit Suisse Global Macro USD	1,343	1.41	2.00	1.41	-6.41	6.77	7.28	4.71
Credit Suisse Hedge Fund USD	788	1.41	3.62	1.41	5.38	5.57	6.05	4.04
Credit Suisse Long/Short Equity TR USD	993	2.41	7.11	2.41	9.98	6.07	6.27	4.83
Credit Suisse Managed Futures USD	400	1.23	-2.25	1.23	1.06	8.68	7.49	4.38

Source: TD Securities Inc., Morningstar®, TR: total return, PR: price return, as of January 31, 2024.

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