FORSTRONG GLOBAL

PORTFOLIO DASHBOARD

JULY 2019

Global Strategy Overview

Cash & Currency

We expect the recent weakness in the US dollar to persist, as a dovish-leaning Federal Reserve, fading tailwinds from fiscal stimulus and crowded speculative positioning all contribute to downside risk. We remain underweight USD exposure across all of our mandates.

Bonds

With over USD 13 trillion of global investment grade debt carrying negative yields and a large proportion of the US yield curve inverted, we see considerable vulnerability for developed market bonds. We have moved further underweight fixed income exposure and taken additional steps to shorten duration.

Equities

Investor surveys confirm that European equities remain a consensus underweight. As reflationary Chinese policy spills over into the global economy with a lag, attractively valued European equities should be outsized beneficiaries. We have increased our overweight postioning.

Opportunities

Gold and gold-related asset classes look attractive given overly depressed inflation expectations, low bond yields (minimizing opportunity costs) and a vulnerable US dollar. We have initiated a tactical position in gold miner equities.

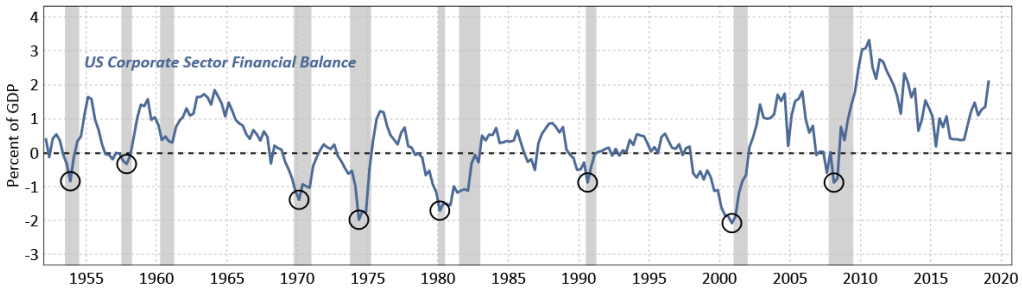
WHAT COULD GO RIGHT?

In recent editions of the Portfolio Dashboard, we have responded to numerous issues causing apprehension in financial markets. These include (but are not limited to) trade wars, falling oil prices, rising high yield spreads and an inverted US treasury yield curve. The confluence of which has led to a plummet in global bond yields and the most severe equity fund outflows recorded since the Global Financial Crisis in 2008. At Forstrong, our relatively constructive view is not borne out of contrarianism or stubbornness, but rather the product of an unbiased assessment of risks and opportunities. So having already acknowledged the widely publicized risk factors, what could go right?

Had you asked us a year ago what the biggest threat to the global economy was, we undoubtedly would have cited policy over-tightening. At the time, Chinese authorities were in the midst of a deleveraging campaign and the US Federal Reserve was hiking interest rates and shrinking its balance sheet. This has now gone into reverse. With central banks leaning dovish in the face of weak manufacturing data, falling inflation expectations and trade uncertainty, policy has turned from a headwind to a tailwind. Chinese credit growth has reaccelerated, and along with other recently implemented monetary and fiscal measures, should start to feed into global growth in late 2019. Critically, three of the world's most important prices, namely the trade-weighted US dollar, crude oil and the US 10 year treasury bond yield, are all signaling an improvement in global financial conditions ahead.

The US - the world's largest economy and the epicenter of the last global recession – is widely viewed as "late cycle". We do not necessarily disagree with this assessment, but we also do not expect a recession to materialize in the near future absent a hawkish Fed. Domestic demand remains supported by low lending rates, household debt-to-GDP has decreased substantially since 2008, unemployment is at a 5 decade low and wage growth continues to outpace inflation. Corporations have amassed a large stock of debt in recent years, but low interest rates and improving profitability have prevented a deterioration in sustainability. The US corporate sector financial balance (a measure of earnings versus expenditures) is in positive territory and has been sharply improving. Per the chart below, a negative reading of this indicator has preceded every US recession since the 1970s.

While an economic stabilization is more likely than a meaningful acceleration, a return to slow and steady growth with ample global liquidity is a highly favourable environment for equities. The dislocation which has emanated from recent market turmoil has presented an opportunity to tactically increase equity exposure.



Shaded grey: US recessions
Sources: BCA Research, Federal Reserve, BEA, NBER, Macrobond, Forstrong Global Asset Management

Gross-of-fees Performance ($CAD) as of June 30, 2019
Returns for periods greater than 1 year are annualized

Portfolio	Inception Date	1 Month	Year to Date	1 Year	3 Year	5 Year	Since Inception
Core Series							
Core Income	Jul 1, 2008	0.82%	5.93%	5.00%	4.93%	5.82%	7.17%
Core Balanced	Jul 1, 2003	1.55%	8.12%	4.00%	6.56%	6.85%	7.29%
Core Growth	Jul 1, 2003	2.24%	10.25%	3.56%	8.22%	7.36%	8.08%
Global Series							
Global Income	Jul 1, 2008	0.61%	4.35%	4.47%	5.58%	7.64%	8.71%
Global Balanced	Jul 1, 2003	1.62%	6.51%	3.50%	7.31%	8.41%	7.32%
Global Growth	Jul 1, 2003	2.58%	9.00%	3.62%	9.56%	9.37%	8.29%
Focus Series							
Special Opportunities Focus	Jan 1, 2014	1.50%	5.67%	1.18%	7.35%	7.08%	7.58%
Emerging Markets Opportunities Focus	Feb 1, 2019	0.44%	N/A	N/A	N/A	N/A	N/A

Performance statistics for ETF Managed Portfolios are calculated from documented actual investment strategies as set by Forstrong's Investment Committee and applied to its portfolios mandates, and are intended to provide an approximation of composite results for separately managed accounts. Actual performance of individual separate accounts may vary with average gross "composite" performance statistics presented here due to client-specific portfolio differences with respect to size, inflow/outflow history, and inception dates, as well as intra-day market volatilities versus daily closing prices. Performance numbers are net of total ETF expense ratios and custody fees, but before withholding taxes, transaction costs and other investment management and advisor fees. Past investment results provide no indication of future performance. Future returns are dependent on the general investment environment, the nature of the investment mandate and specific portfolio risks. A rate of return for one year or less is not annualized.