

Investment Strategy

Global Opportunity & Risk

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1832 Asset Management L.P.

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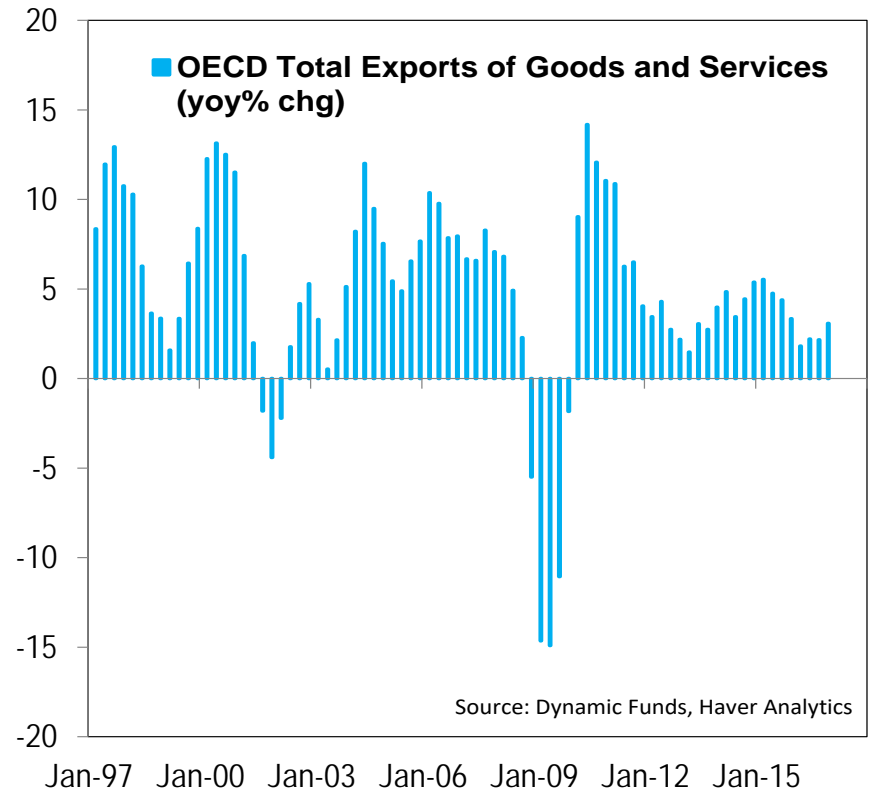
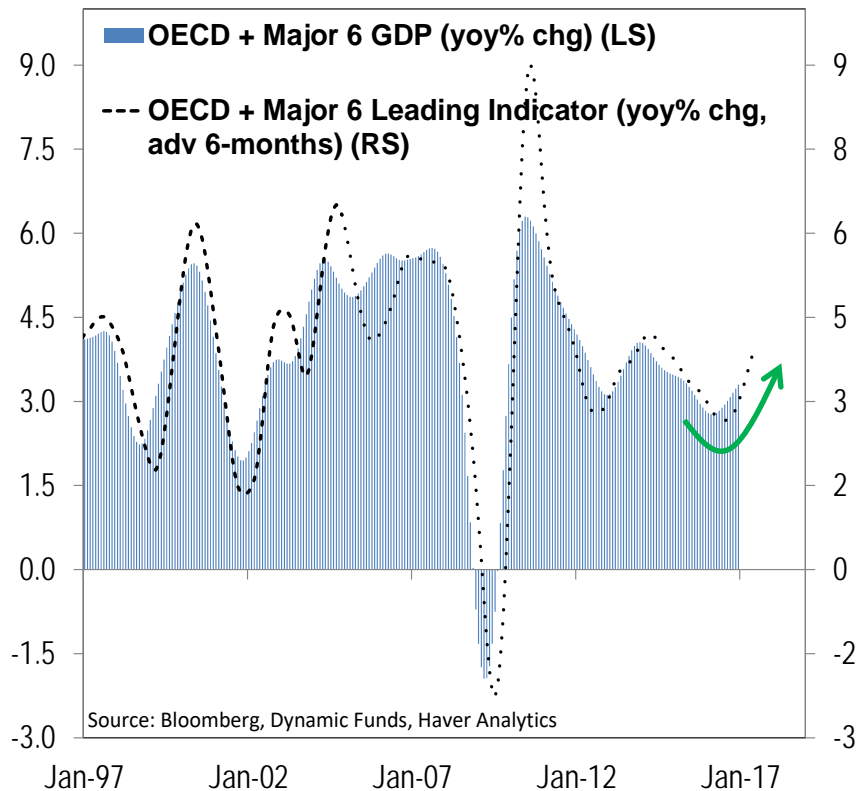
Global economy expected to accelerate

Consensus GDP Outlook		
	2016	2017E
	GDP	GDP
China	6.7	6.6
Emerging Mkts	4.4	4.6
World	3.1	3.3
US	1.6	2.2
Canada	1.4	2.3
Developed Mkts	1.7	2.0
UK	1.8	1.8
Eurozone	1.8	1.6
Japan	1.0	1.2

As of May 1, 2017. Source: Bloomberg

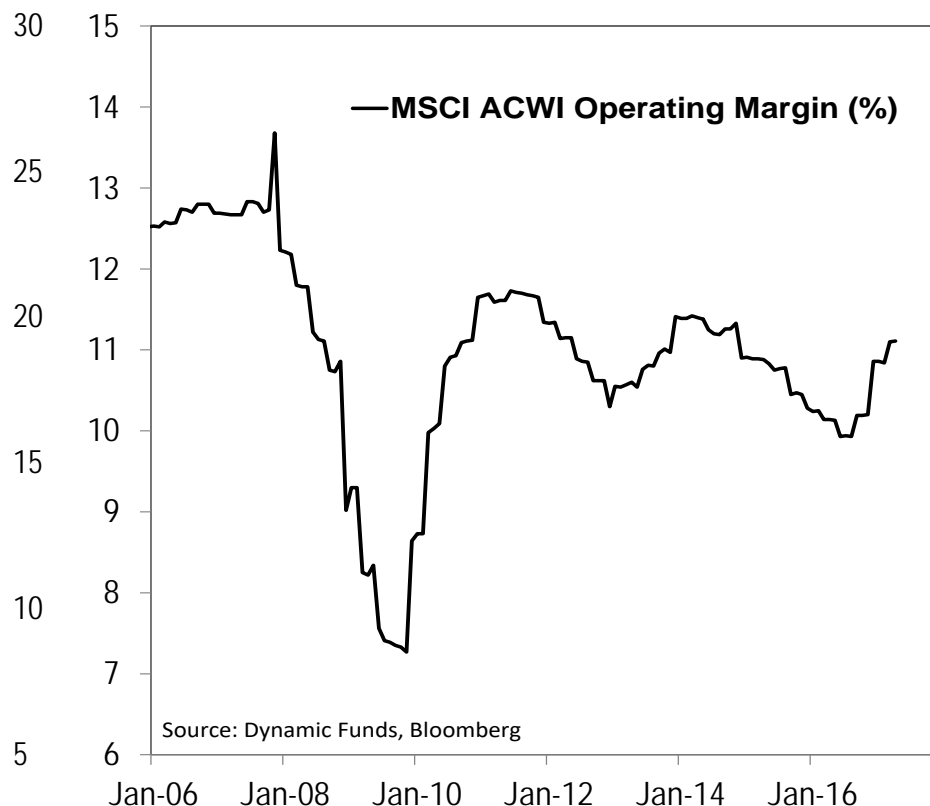
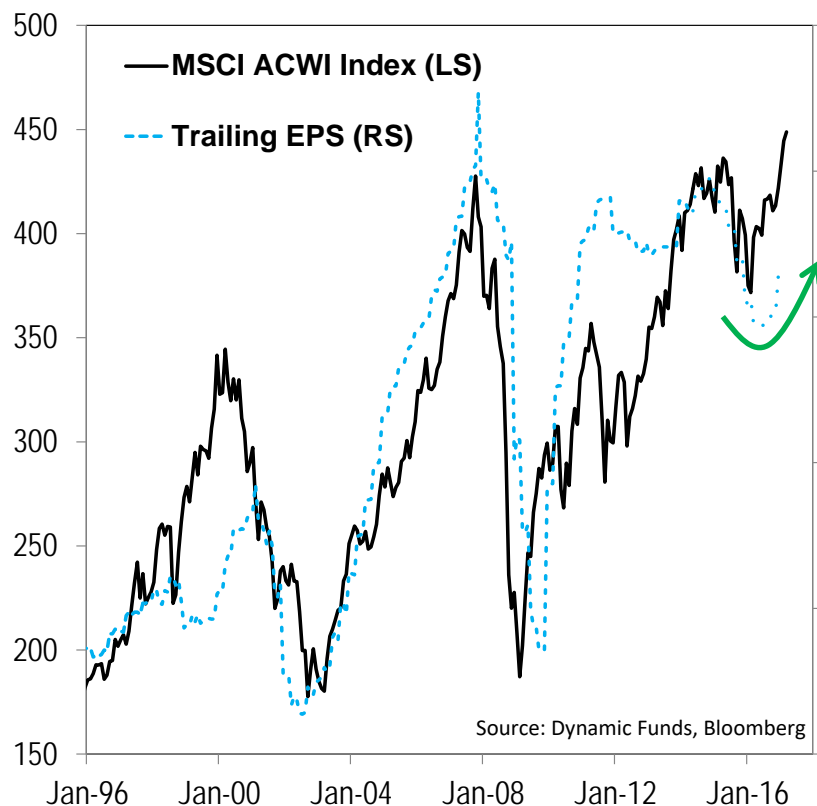
- Analysts anticipate a somewhat better tone to global growth, buoyed by both a firming in EM and DM economies.

Leading data remain optimistic



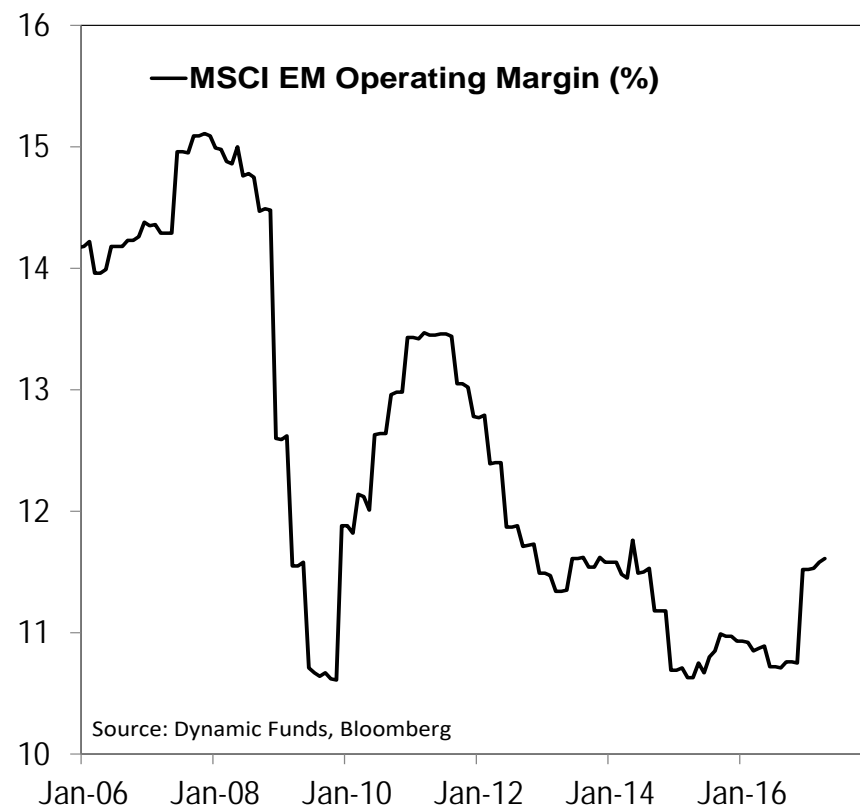
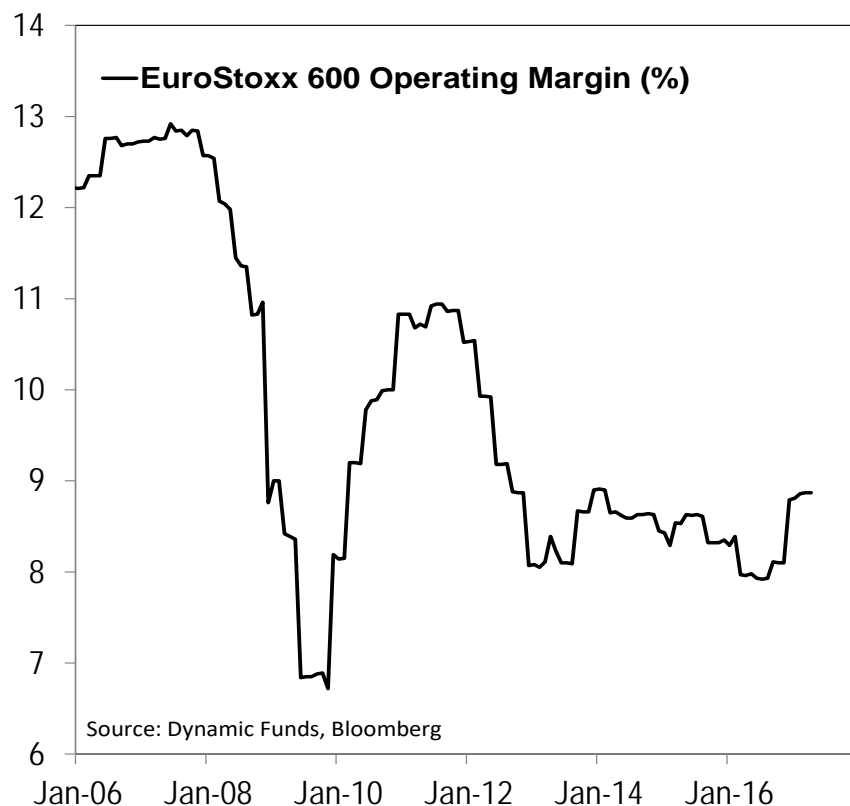
- Leading indicators support consensus expectations of accelerating global growth.
- The improvement in trade activity is a positive sign for the global economy.

Global EPS escaping a multi-year malaise



- Better global economic growth brings an end to the ~2-year period of challenged corporate earnings delivery.
- Profit margins are rebounding in response to rising top-line growth.

Lots of upside available in Europe and EM



- The biggest growth opportunities are located in continental Europe and the Emerging Markets, places where margins are only just recovering from cyclically depressed levels.

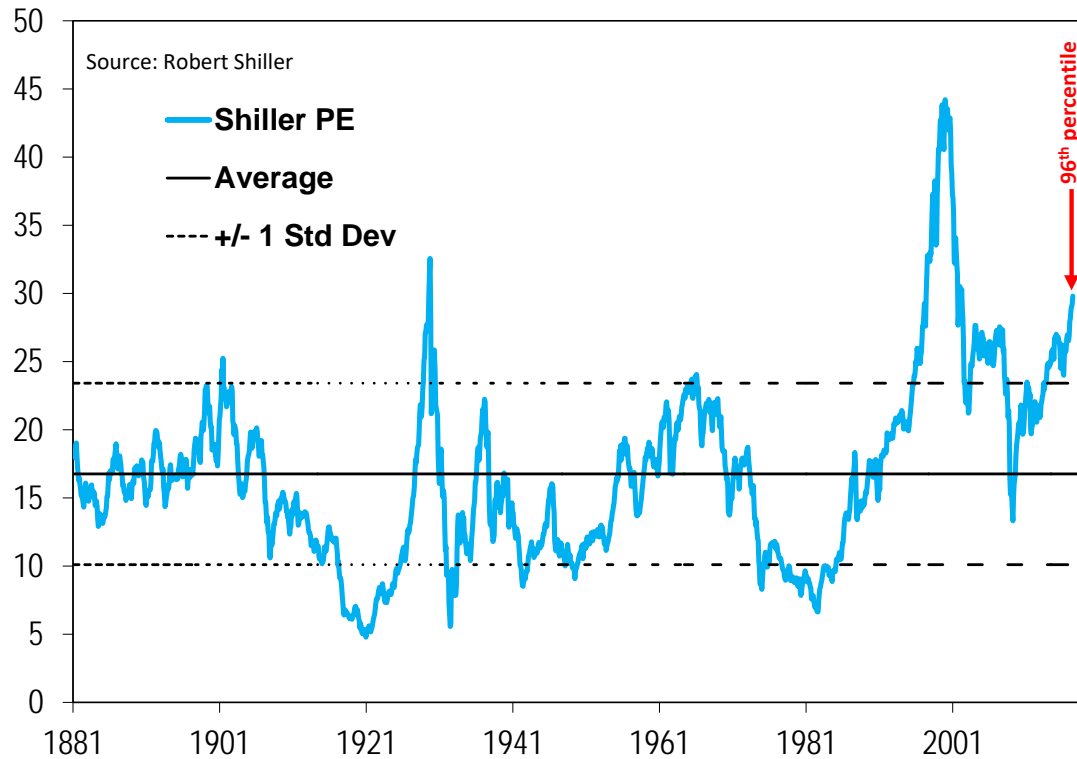
Consensus earnings outlook

Consensus Estimates	EPS Growth (%)	
	2017	2018
MSCI Developed Mkts	12.5	10.6
MSCI EM	23.2	10.2
S&P 500	10.7	11.1
Stoxx 600	17.5	9.3
Stoxx 50	11.7	9.6
FTSE 100	19.3	8.1
DAX	10.3	8.1
CAC 40	8.2	9.8
IBEX	33.1	9.7
MIB	43.4	17.5
TOPIX	15.5	9.7

Source: Goldman Sachs

- Global EPS probably expands by 10-12% in 2017, led by EM and EAFE equities.

S&P 500 Shiller PE is Stretched



- We have seen S&P 500 PEs higher only 4% of the time since 1881, with most of that occurring during the late-1990s technology bubble.

Valuations are a risk metric

Shiller P/E							
Percentile		Level		Maximum S&P 500 drawdown (real)			
From	To	From	To	1-yr	2-yr	3-yr	5-yr
0%	10%	5.1	9.7	-11%	-13%	-15%	-17%
10%	20%	9.7	11.2	-9%	-10%	-12%	-15%
20%	30%	11.2	12.7	-10%	-13%	-15%	-17%
30%	40%	12.7	15.0	-13%	-17%	-19%	-23%
40%	50%	15.0	17.1	-17%	-22%	-26%	-29%
50%	60%	17.1	19.1	-12%	-20%	-23%	-26%
60%	70%	19.1	21.0	-9%	-13%	-14%	-17%
70%	80%	21.0	23.3	-13%	-19%	-23%	-26%
80%	90%	23.3	26.5	-9%	-12%	-18%	-26%
90%	100%	26.5	45.5	-15%	-24%	-30%	-37%
Average since 1928				-12%	-17%	-20%	-25%

Smaller drawdowns experienced in cheaper markets.

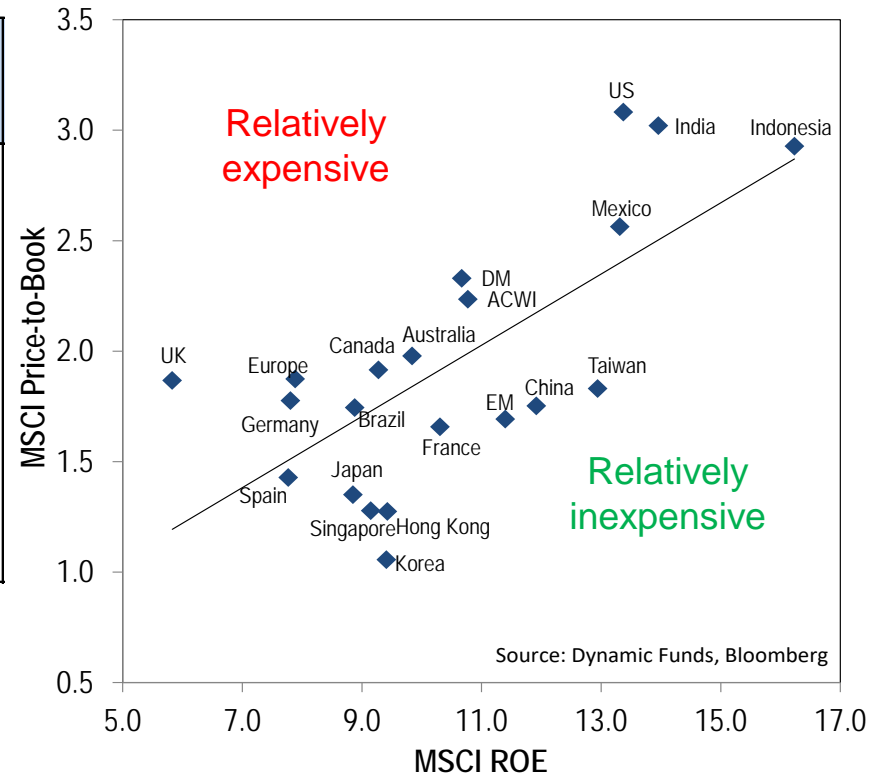
Source: Goldman Sachs, R. Shiller, Bloomberg

- Valuations do not help with timing, but do reflect embedded risk if fundamentals take an unexpected turn for the worse: Higher valuations are associated with larger drawdowns.

Better valuations in EM, Europe

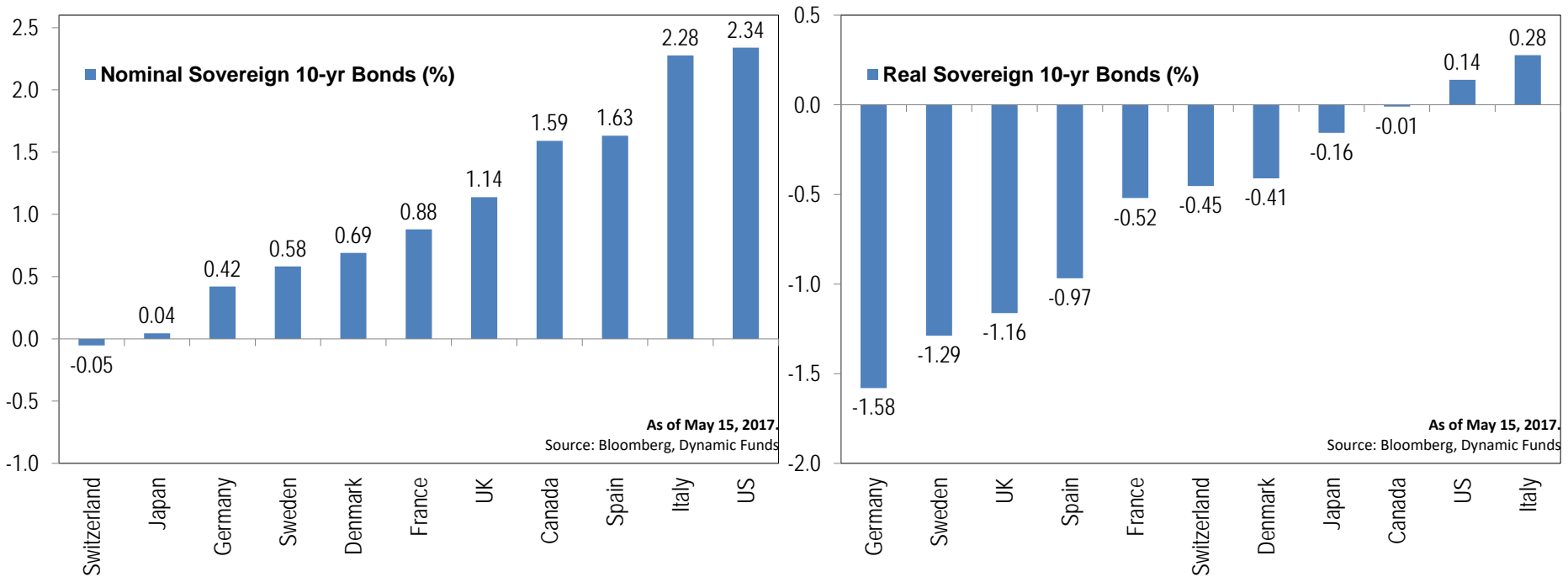
Consensus Estimates					
	P/E		EPS Growth (%)		Dividend Yld
	2017	2018	2017	2018	(2017, %)
MSCI Developed Mkts	17.2	15.4	12.5	10.6	2.5
MSCI EM	12.7	11.6	23.2	10.2	2.6
S&P 500	18.1	16.3	10.7	11.1	2.0
Stoxx 600	15.7	14.4	17.5	9.3	3.4
Stoxx 50	15.1	13.8	11.7	9.6	3.4
FTSE 100	14.7	13.6	19.3	8.1	4.2
DAX	14.2	13.1	10.3	8.1	2.9
CAC 40	15.1	13.8	8.2	9.8	3.4
IBEX	14.1	12.9	33.1	9.7	3.6
MIB	14.4	12.2	43.4	17.5	3.9
TOPIX	14.3	13.1	15.5	9.7	2.1

Source: Goldman Sachs



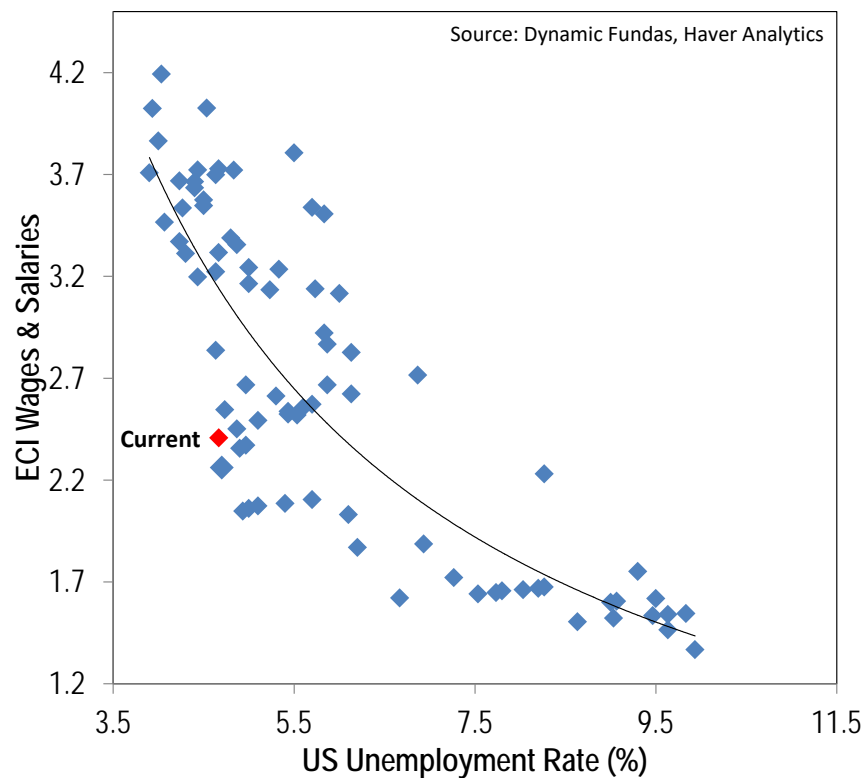
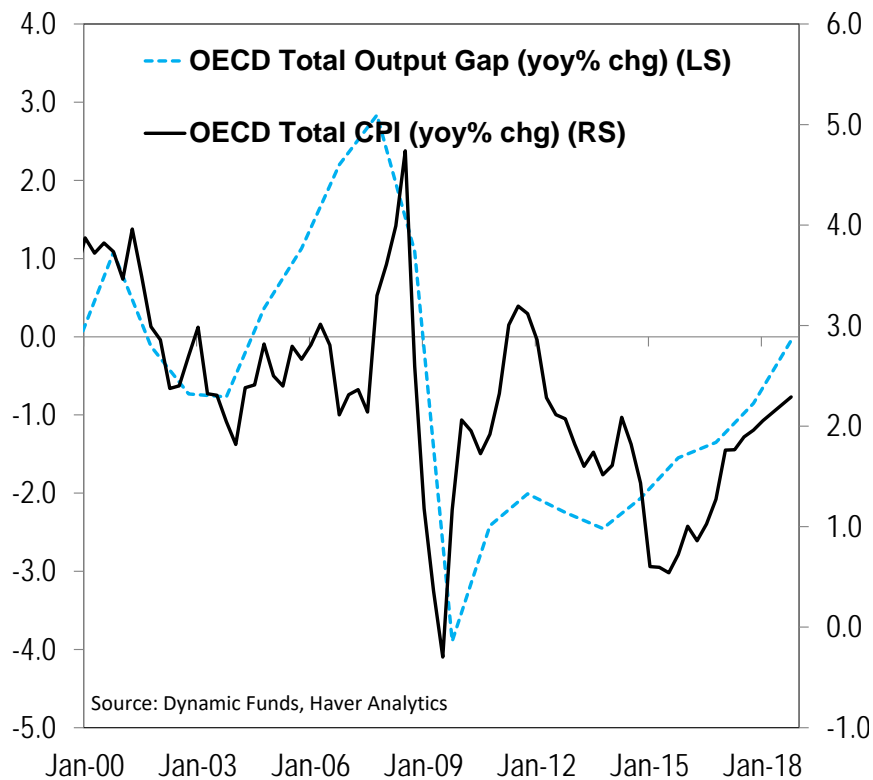
- Equity markets are more attractively valued in continental Europe and EM on dividend yields, simple PEs and on a profitability-adjusted basis.

Global bonds are not cheap



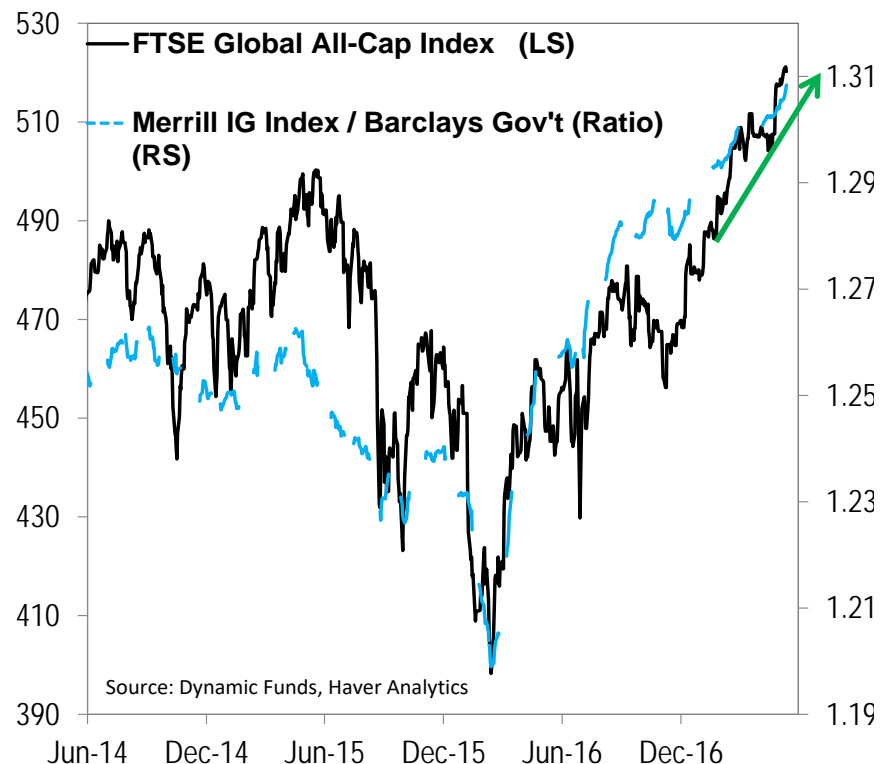
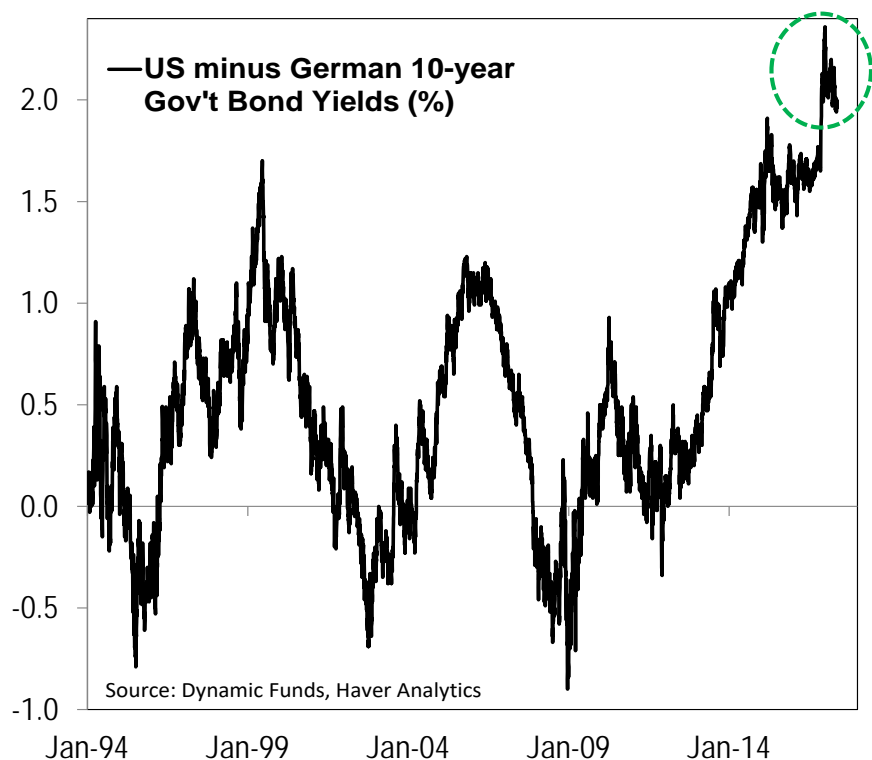
- While sovereign yields are up ~100 bps from their summer 2016 low, they are still near an historical nadir and look particularly expensive relative to underlying trends in nominal economic activity.

Global inflation pressure moderate, but climbing



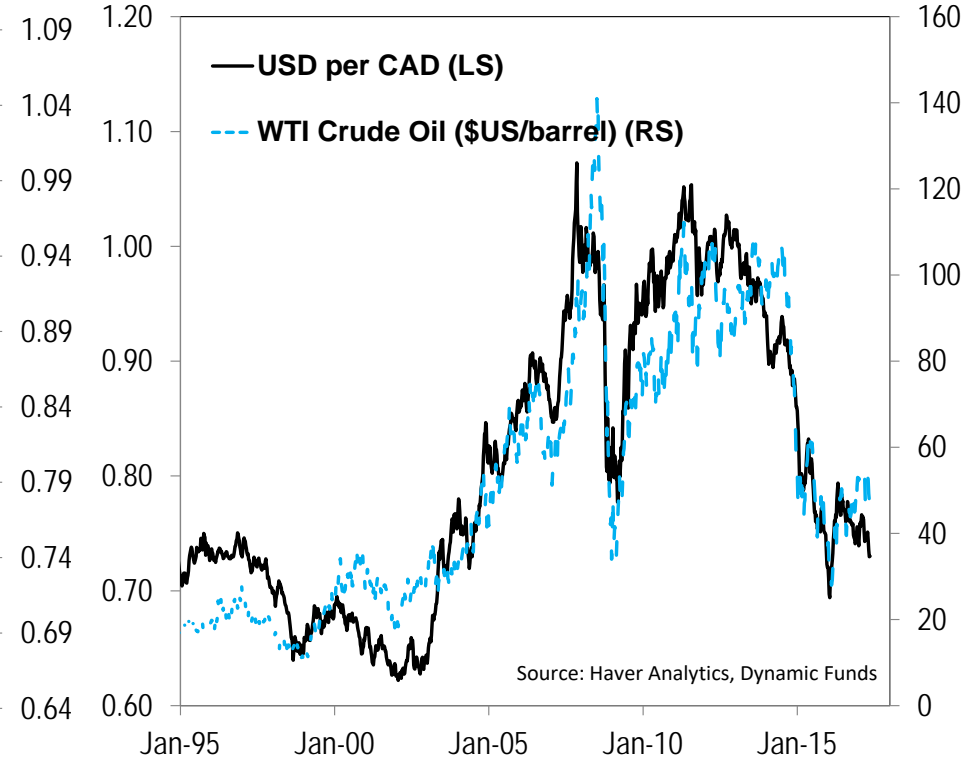
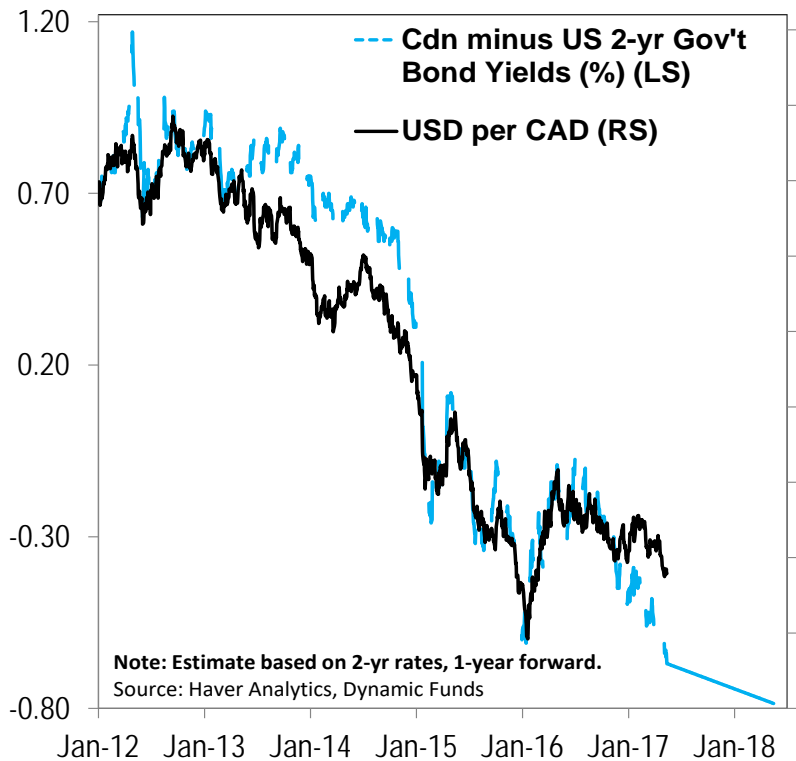
- The decline in global excess capacity is likely to place modest upward pressure on inflation over the next 12-18 months. Keep an eye on U.S. wages given the tightening labor market.

Favor N.A. Sovereigns, Corporates



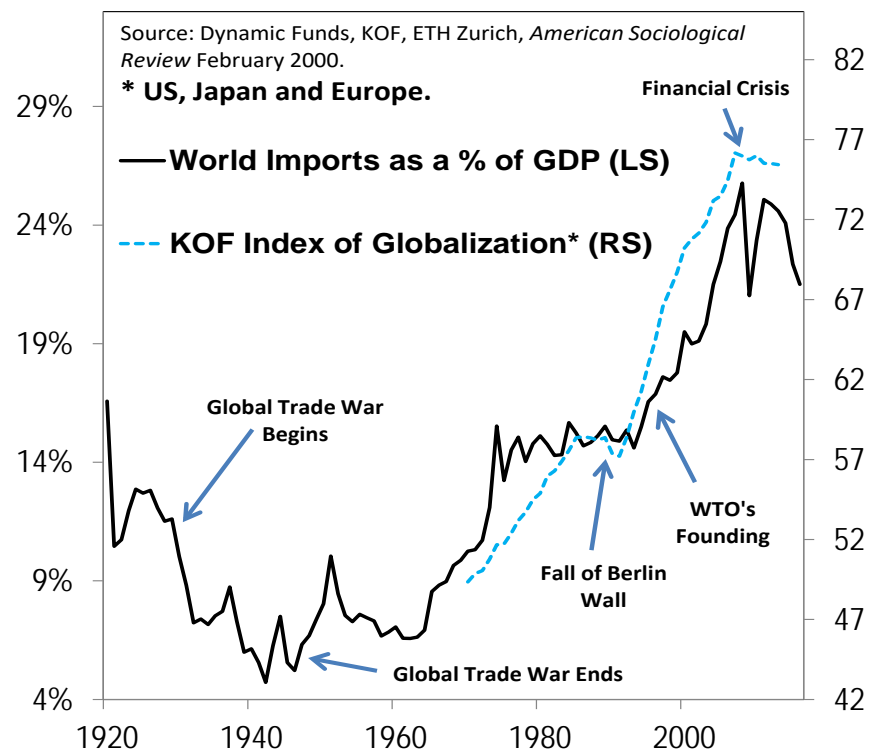
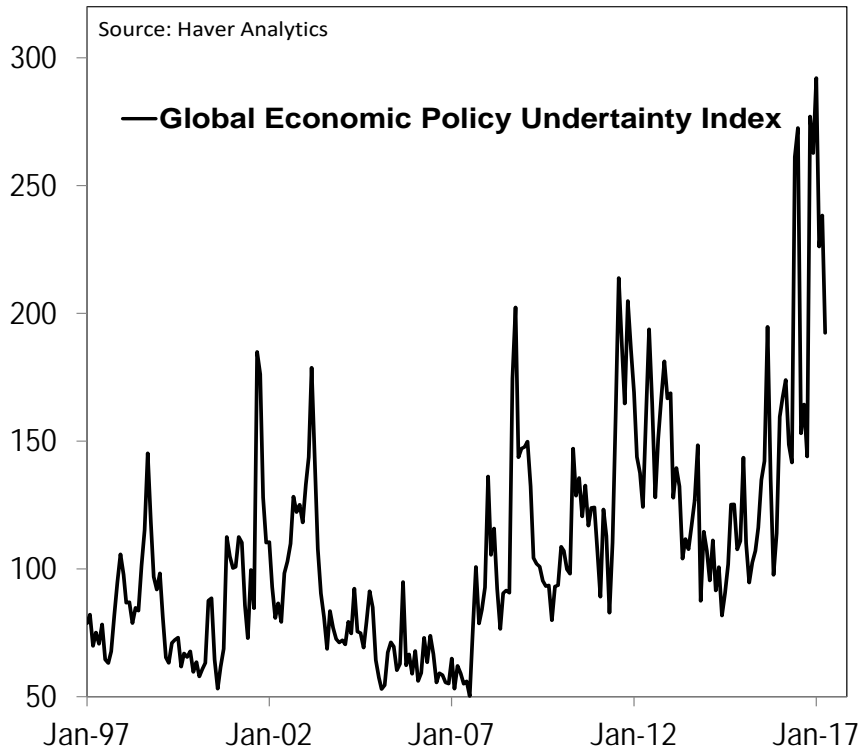
- While sovereigns are expensive, relative value is found in North America (e.g., U.S. Treasuries are yielding ~200 bps more than comparable German bunds).
- We prefer corporates over sovereigns given a favorable supply-demand balance, ongoing improvement in corporate cash flow, and low financial stress.

To Hedge or Not?



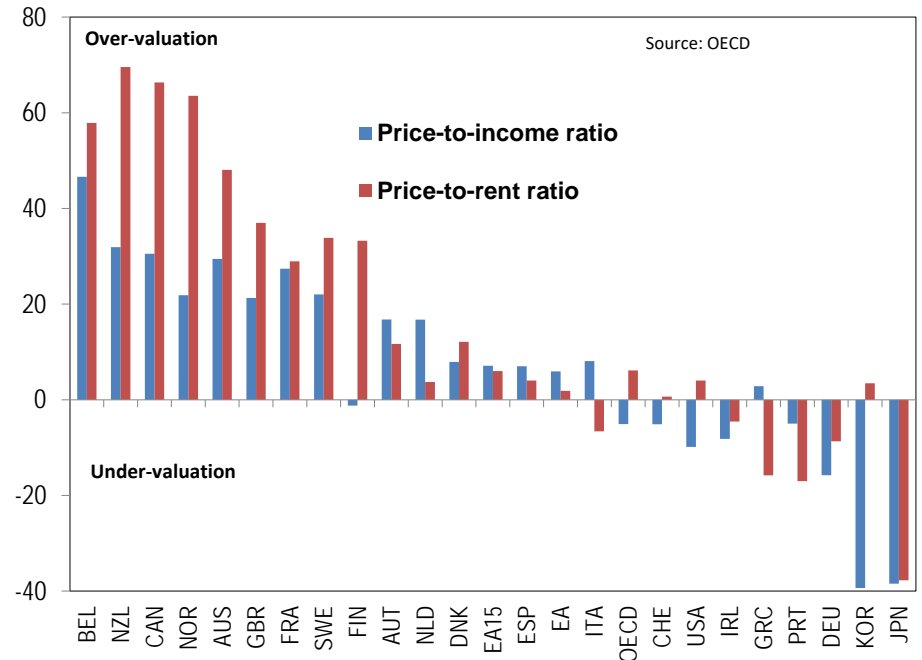
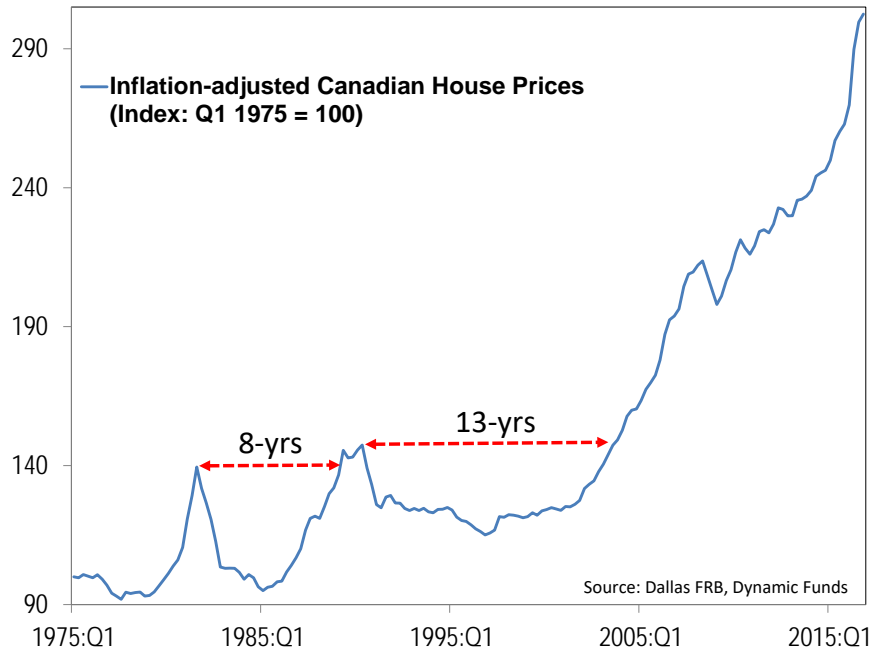
- Expected interest rate differentials, limited upside in oil, and lingering global trade concerns (e.g., NAFTA) are likely to weigh on CAD over the next year.

Geopolitical risks



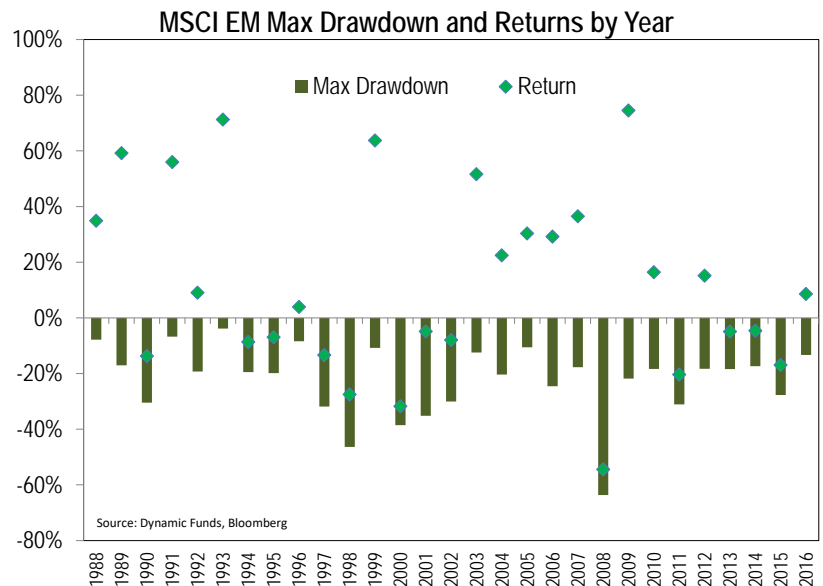
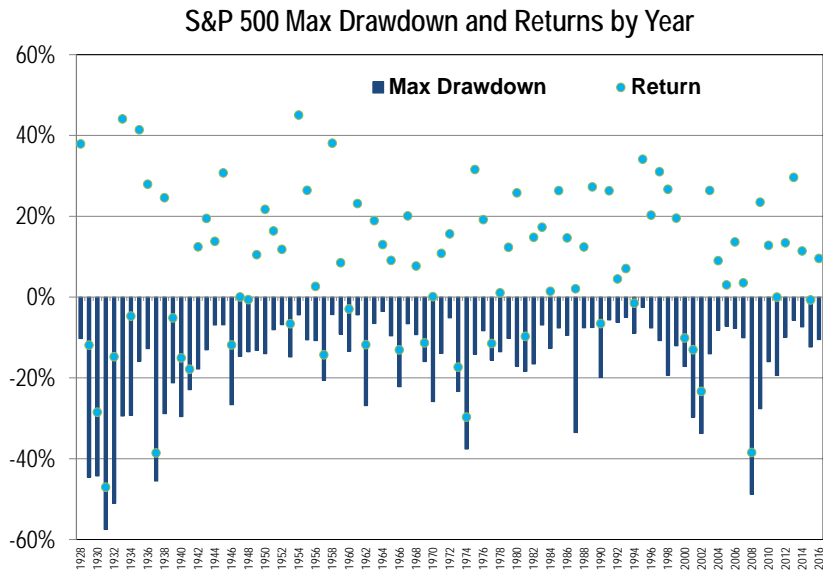
- We skated through the French election relatively unscathed. Next up are the U.K. general election (June 2017), the German federal election (September 2017) and the always unpredictable U.S. president.

Canadian housing excess



- Prices in Vancouver and Toronto are soaring, the OECD says we are one of the most expensive markets, while the Bank of Canada has become vocal about household debt levels.

You Just Can't Escape It



- Based on an examination of daily data, we find the following:
 - Average intra-year maximum drawdown is -16.5%; median drawdown is -13.5%.
 - Despite the large calendar year drawdowns, 66.3% of calendar years in a sample of 89 years was accompanied by positive returns.

- Average intra-year maximum drawdown is -22.1%; median drawdown is -19.3%.
- In EM land, 55% of calendar years was accompanied by positive returns.

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