TD Wealth

Insights 2023

Monthly Perspectives

February 2023

Wealth Investment Office

Right here. Right now. | Wealth Investment Office Conference Insights

Float like a butterfly

Brad Simpson, Chief Wealth Strategist | TD Wealth

Right here. Right now. | TD Wealth Annual Investment Strategy Conference

In mid-January, we finally — after three long years — returned to live events with our annual investment strategy conference at the Shangri-La Hotel in Toronto. The name of the conference was "Right here. Right now," and there's a good reason for that. The importance of focusing on the here and now in 2023 cannot be overstated. The investment landscape shifted tectonically last year, with stocks and bonds falling *at the same time*. Which is to say, simple asset-class diversification didn't work so well last year.

The good news is, we're now moving through a period of normalization. The historical correlations that we've become accustomed to are working again. That doesn't mean you can slide your investments into neutral and coast the rest of the way. There's still a great deal of uncertainty out there, and new themes are emerging on a more frequent basis, so active management is key.

There are a handful of things that everyone is fixated on right now: inflation, global growth, rate hikes, earnings and geopolitics. Pretty basic, right? And it feels like we've been here forever, but that's just not the case. If we were to go back a year, almost none of these themes would be front and centre. In early 2022, remember, *deflation* was the issue, not inflation. We'd be talking about whether tech was overvalued. Whether crypto made sense as an investment. Whether the pandemic had ended. It's remarkable to think that Covid today is not even among the top concerns for investors.

The point I'm trying to make here is that things are moving fast, and when we broach the subject again next year, the issues that are in the financial news today may no longer be relevant.

The truth is that this place we find ourselves in is not terribly mysterious. We're in a late-stage economy (Figure 1). Economic growth is slowing. Inflation is high. Monetary policy is getting tight. And most importantly, risk has been repriced. (Figure 2).

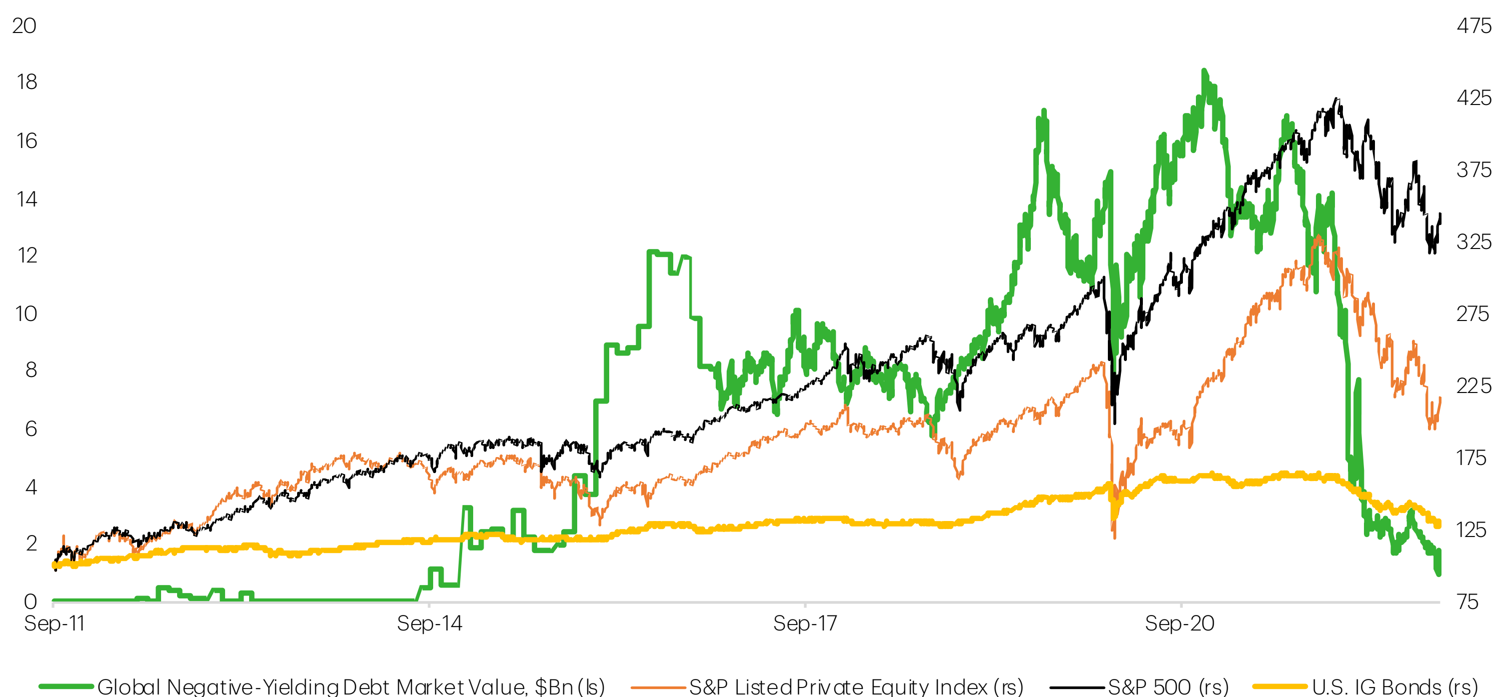
Take, for example, the market for negative-yielding debt — that bizarre world where banks must pay for the privilege of holding cash instead of lending it to businesses. That's how desperate central banks were to incent growth. They were basically forcing banks to lend all available cash. At its peak, the negative-yielding debt market was worth US$18 trillion. Today, it's all but disappeared.

Figure 1: Our portfolios are positioned for where we are in the cycle

	Upside Risk		Current Positioning	Downside Risk
Macro Indicator	**Early Stage (22%)**	**Mid Stage (42%)**	**Late Stage (22%)**	**Recession (13%)**
Economic Growth	High	Moderate	Low	Negative
Inflation	Low	Moderate	High	Low to Negative
Monetary Policy	Loose	Neutral	Tight	Loose
Term Premium	High	Moderate	Low	Low to Negative
Credit Conditions	Loose	Loose but Tightening	Tight	Enter: Tight; Exit: Loose
Equity Portfolio Considerations	**Early Stage**	**Mid Stage**	**Late Stage**	**Recession**
Style	Growth	Growth	Value	Value & Income
Business Cycle Positioning	Cyclical	Cyclical	Defensive	Defensive
Sectors	Financials, Technology, Discretionary	Technology, Comm. Services, Industrials, Discretionary	Energy, Materials, Staples, Health Care, Utilities	Health Care, Utilities, Real Estate

Source: TD Wealth as of February 15, 2023

Figure 2: Risk has been repriced with the end of easy money



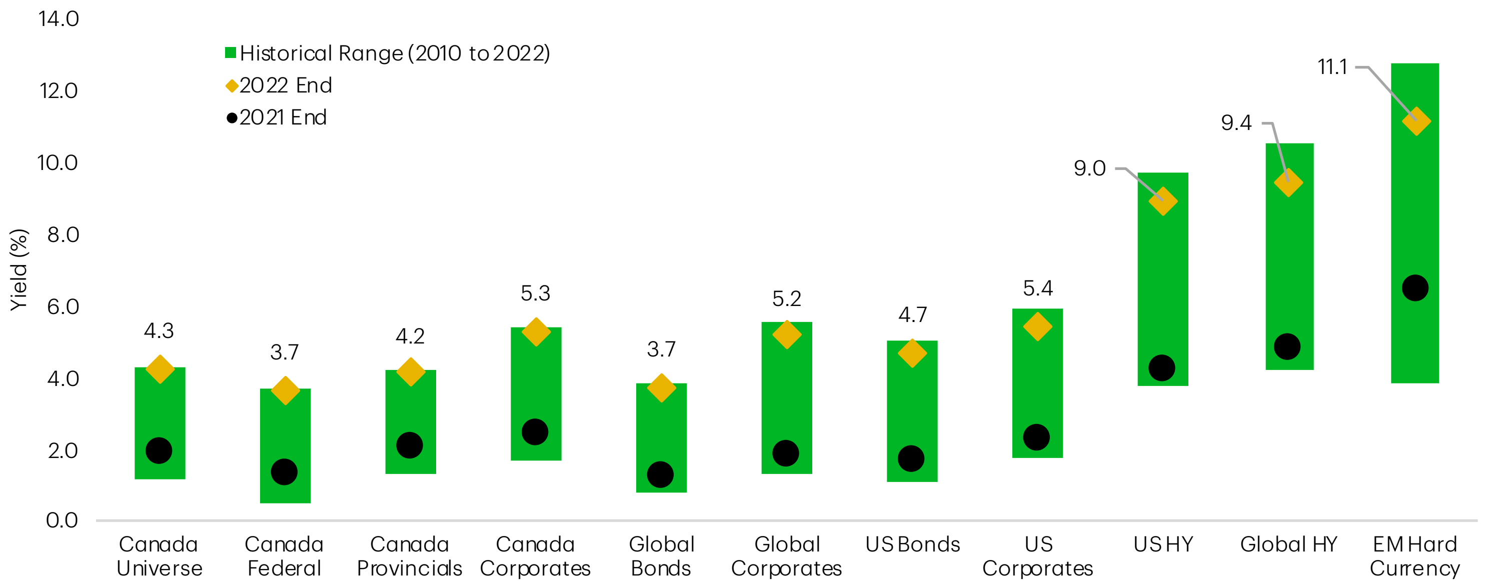
Source: Bloomberg Finance L.P. as of January 5, 2023.

Indeed, relatively safe bonds — both corporate and sovereign — have once again taken centre stage. Yields are higher right across the board as central banks focus on the fight against inflation. That has resulted in surging yields, which have made the asset class extremely attractive (Figure 3). We as a firm, for instance, are maximum overweight fixed income.

The bad news is that the battle against inflation hasn't yet been won; the good news is that we seem to be getting close. One of the remaining hurdles for central banks in dealing with inflation is wage growth, and a proxy for that is the services industry, where wages make up a higher proportion of the overall costs. (So, think restaurants, recreation, consulting, etc.)

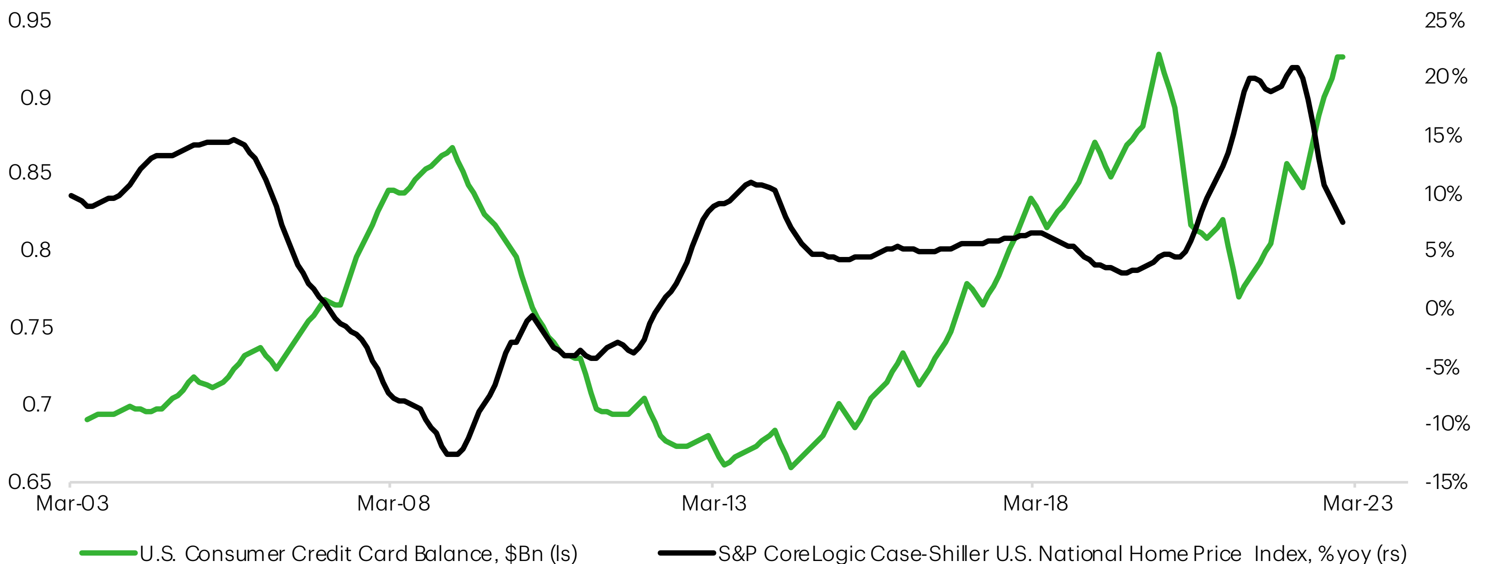
Inflation on the services side of the economy has remained high, but we think that's likely to change as credit conditions continue to tighten. In America and Canada, credit card balances are rising as housing prices fall. That's not a good feeling if you're a homeowner, right? It's a trend that's bound to give consumers pause for thought. And we think that, over the next 12 months, it's going to start to slow spending (Figure 4).

Figure 3: The appeal of fixed income



Source: Bloomberg Finance L.P. as of January 5, 2023.

Figure 4: Deteriorating personal balance sheet



Source: Bloomberg Finance L.P. as of January 5, 2023.

Of course, if wages continue to climb, maybe that higher credit card bill doesn't seem like such a problem, and people keep on spending. That, incidentally, is what the Fed is worried about. But we think there are some indicators that show that the labour market is slowing (Figure 5). All you need to do is look at the news and take note of all the tech companies issuing major layoffs. Small-business surveys, meanwhile, are beginning to signal a slowdown in their hiring intentions.

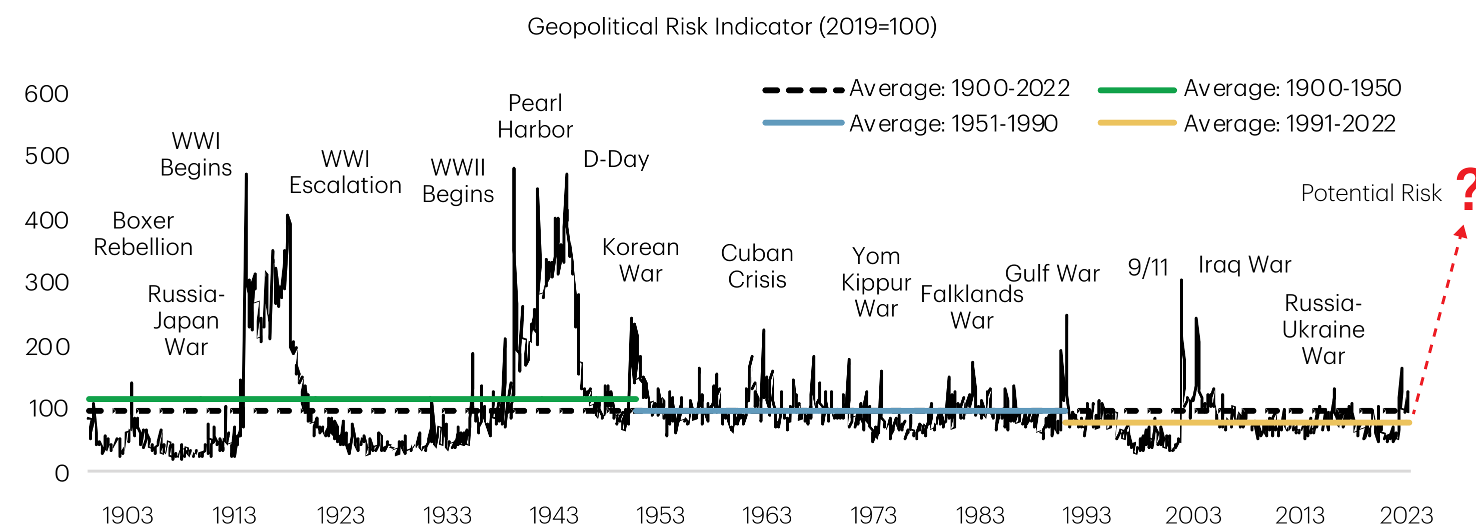
I'm not trying to paint a picture that's unduly bleak. We're just at an inflection point where we want to be careful and not get too ahead of ourselves. This is not a time to be making big shifts either way. We just need to keep it to the here and now. We need to stay nimble. Or, to quote the GOAT, we need to "float like a butterfly, sting like a bee," because this world we're living in is filled with uncertainty.

Lending to that uncertainty, of course, is the geopolitical situation, which is more dangerous than it's been in a long time. Indeed, things have been relatively quiet over the past few decades. Every once in a while we'd have a spike of geopolitical uncertainty, but truth be told, we've been living in a world where globalization was the driving force — where the pursuit of material prosperity trumped all other concerns (Figure 6). We all wanted to have free markets ... until we didn't anymore, until there was a different equation.

Figure 5: Less hiring leads to higher unemployment

Source: Bloomberg Finance L.P. as of January 5, 2023.

Figure 6: Is geopolitical risk increasing?



Source: Caldara and Iacoviello. Measuring Geopolitical Risk. American Economic Review 2022, 112(4): 1194–1225. as of January 5, 2023.

Over the past decade or so, we've witnessed the rise of populism and protectionism not just in America and Europe, but really around the world. We saw Brexit and Trumpism and Bidenomics. We've seen government buildings attacked by mobs, both in the U.S. and Brazil. We've seen the "decoupling" of the two largest economies in the world. And most recently, we've seen a major war of conquest in Europe.

Now, look at where we are. You have warfare in Eastern Europe between Russia and Ukraine. The Russian economy has remained surprisingly resilient, even as Western allies pile on sanction after sanction. On the other side, you have China supporting Russia. Nuclear powers are engaged and rattling sabres, and the threat of nuclear war is in the air. Now, to be clear, we are not saying that nuclear war is even a remote possibility. But remember, markets trade on fear, not rational probabilities. So, amid this heightened tension, it's not going to take much to generate intense volatility.

In other words, for the markets, the perception of danger is almost as bad as the thing itself. You can see that, again, in the way consumers react to falling real estate prices. You have a nice house and a secure job, but when the value of your home falls, you just feel poorer — and so you start to cut back on spending, even though nothing material has changed about your personal finances.

If all of this sounds dire, it's not meant to be. I go back to my earlier comment about the importance of active management in uncertain market environments. Good portfolio managers understand that there's a big world out there. Bonds look attractive, we see very compelling investment opportunities within lower-duration investment-grade corporate bonds given that all-in yields remain elevated versus historical levels. International and emerging-market equities are trading at a significant discount (Figure 7) as the Chinese economy reopens. The U.S. dollar is likely overbought and global currencies are set to rise. There are opportunities out there as we move through 2023. But we need to be focused on the data as it emerges.

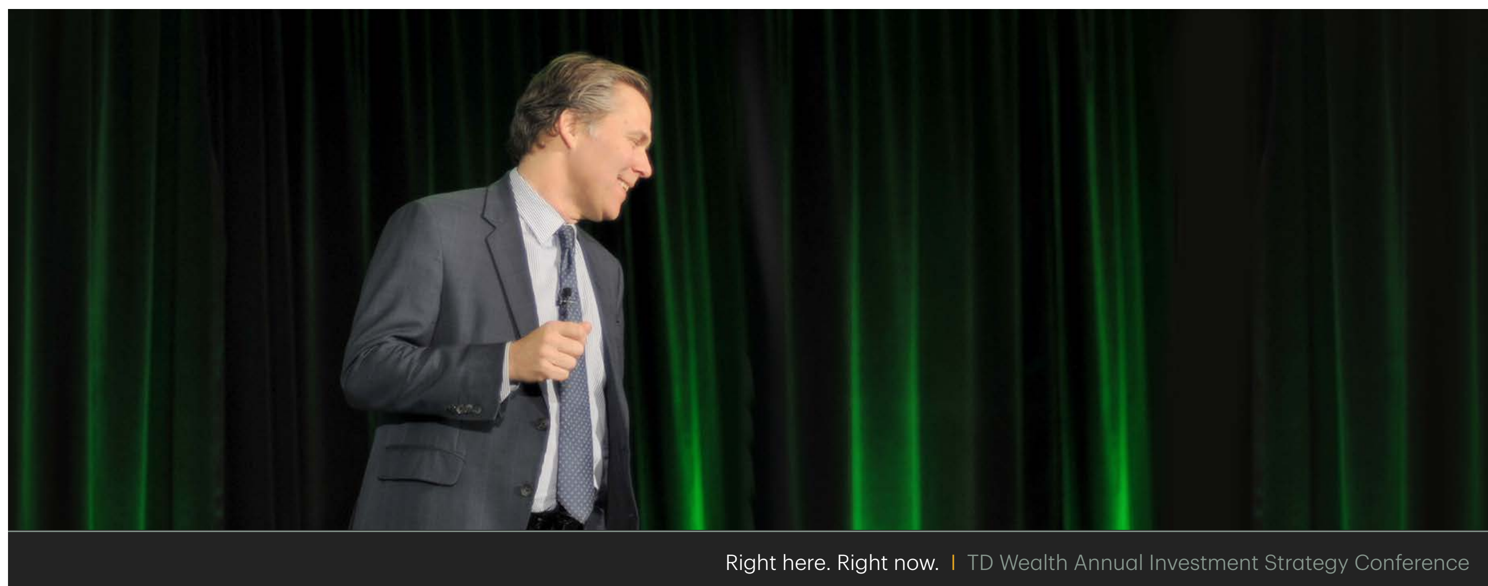
Float, float, float, and then, as opportunities present themselves, sting.

Figure 7: European markets could bounce back alongside improved sentiment

Source: Bloomberg Finance L.P. as of January 5, 2023.

Economic and Financial Outlook

Presentation by Derek Burleton, Deputy Chief Economist | TD Economics



It's been our tradition to lead off the annual conference at 30,000 feet, with a wide-ranging macroeconomic and financial outlook from Deputy Chief Economist Derek Burleton. This year, Burleton was faced with a daunting question. Why were markets so optimistic even as the economic data pointed the other way? Below, we summarize the key themes in Burleton's enlightening presentation.

Reality check imminent

"Whether you say the R-word or you don't, there's going to be very little growth this year."

The pandemic has generated some odd dynamics — excess savings, a rebounding labour market — that may be giving markets a false sense of security. Burleton reminded the audience that the pace of rate hikes has been unprecedented. These will undoubtedly have an impact, albeit a lagged one. Data shows a weakening economy, even if the hot labour market is propping up consumer spending. TD Economics, for its part, is forecasting little growth for 2023 and higher unemployment rates by the end of the year.

Figure 1: Recession risks to remain elevated across much of the world

	Real GDP Growth, Annual % Change			
	2022e	2023f	2024f	10-Year Average, %
World	3.3	2.3	3.9	3.4
China	2.9	5.0	4.9	6.7
EU	3.2	-0.3	0.9	1.2
U.S.	1.9	0.9	0.9	2.1
Canada	3.5	0.7	0.4	1.6

Source: TD Economics as of January 5, 2023.

... but not like the financial crisis

"We've seen a risk-on [market], and that's probably led to less financial stress. ... Actually, the Fed would prefer to see a moderate level of stress in the economy."

We haven't seen any shocks to the financial system, and stress levels are still low, so don't expect a wave of corporate bankruptcies or a financial crisis. Rather, Burleton suggests we're in line for a couple of years of stagnation, with the economy in and out of contraction. That's not a bad thing necessarily, he says, given current inflation. We need stagnation at the very least to bring down price growth. The real risk, rather, is that a hot labour market could keep wage growth from falling, which would lead to continued rate hikes.

Figure 2: Financial stress holds economy in its grips

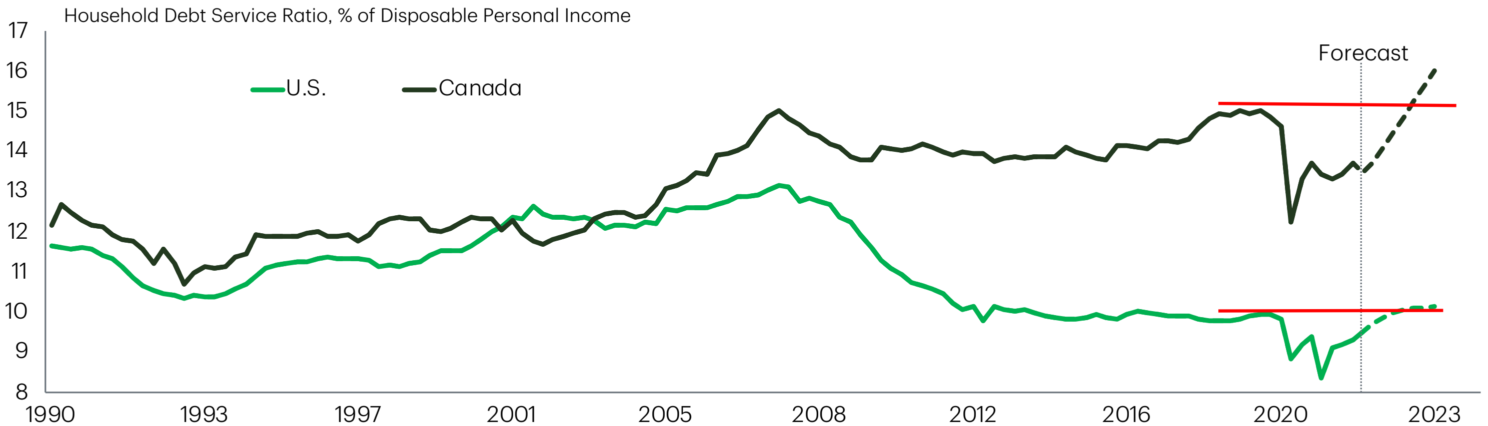
Source: TD Economics as of January 5, 2023.

Household debt looms large

"We've got a renewal shock in Canada: 13% to 18% of mortgages will come up for renewal this year. ... Households are going to have to fund this by cutting back on discretionary spending."

Consumer spending will likely fall as mortgage rates rise. This is particularly true in Canada, where renewals are capped at five years. As a result, Canadians going forward will see much higher debt-servicing costs than in the U.S., where 30-year mortgages are common. Higher costs in Canada may put a damper on consumer spending. The silver lining, from Burleton's perspective, is that the housing bubble seems to have already deflated. Prices should bottom by spring and might even get a lift if we see rate cuts later in the year.

Figure 3: Bank of Canada has to walk a tight rope



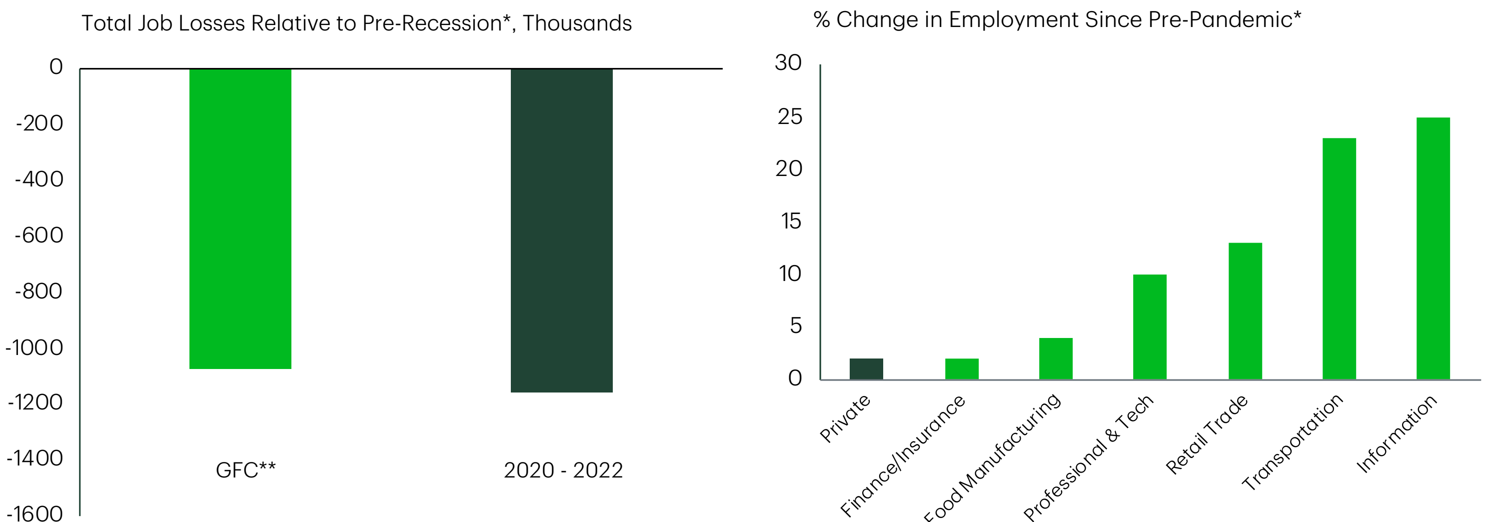
Source: Federal Reserve Board, Statistics Canada. Forecast by TD Economics. As of January 5, 2023.

White-collar workers to feel the brunt of it

"It's going to be a recession that's more homed in on the higher-wage areas. ... Already we're reading about tech layoffs and the like in the States."

Through the pandemic we witnessed the so-called "K-shaped" recovery, where lower-paid service workers were laid off while higher-paid office workers continued to perform their duties from home. Now, according to Burleton, the pendulum is swinging the other way. Wages are rising rapidly for service workers, who are in demand in the wake of the pandemic, while we've already seen layoffs for high-paid tech jobs.

Figure 4: U.S. Labour Market: Are all jobs treated equal?



*For Leisure/Hospitality, Government, & Other Support Services sectors.
***GFC = global financial crisis. Source: BLS, TD Economics as of January 5, 2023.

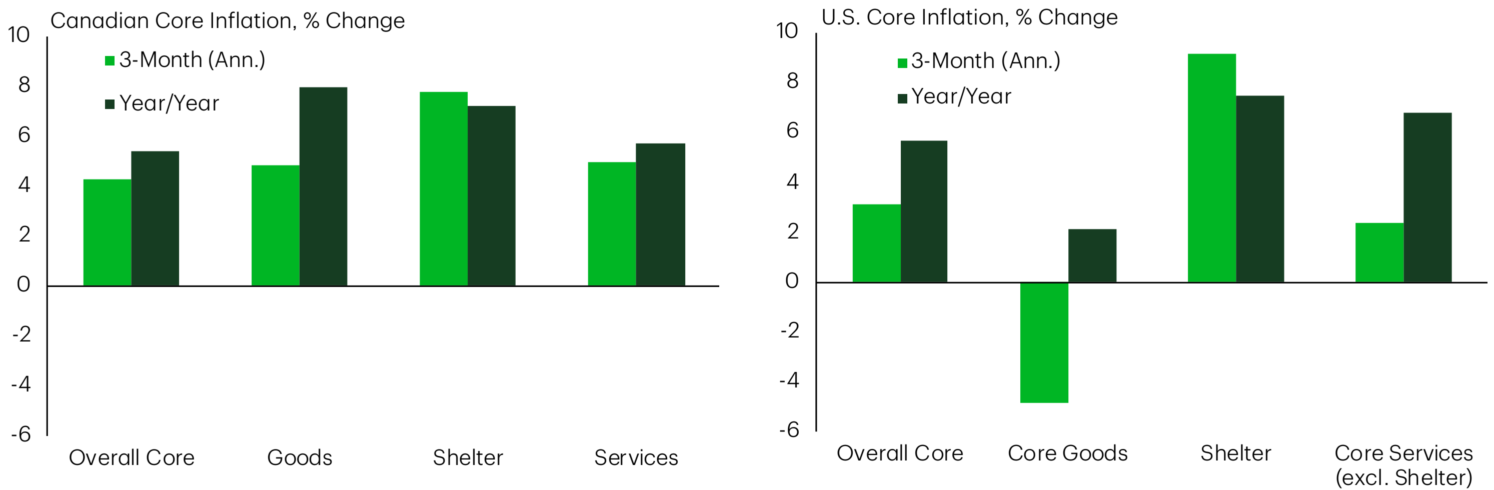
*Pre-Pandemic values use December 2019. Source: BLS, TD Economics as of January 5, 2023.

Inflation has fallen rapidly

"If you're the Fed, you're thinking, 'Well, this is good.' ... I do think, by the end of this year, we are looking at 3.5% inflation rates in the U.S., and trending down."

Three-month annualized core inflation numbers offer the best indication of how we're doing on that front, since they point to a trend while eliminating weird base effects and volatile food and energy prices. The good news from this vantage point is that we're already seeing an impressive decrease in inflation. Goods prices have come down rapidly, and shelter prices (rents and mortgages) appear to have peaked. We expect they will start to come down in the next few months.

Figure 5: Three areas of focus on U.S. inflation



Source: Source: Statistics Canada, TD Economics. Last observation: November 2022.

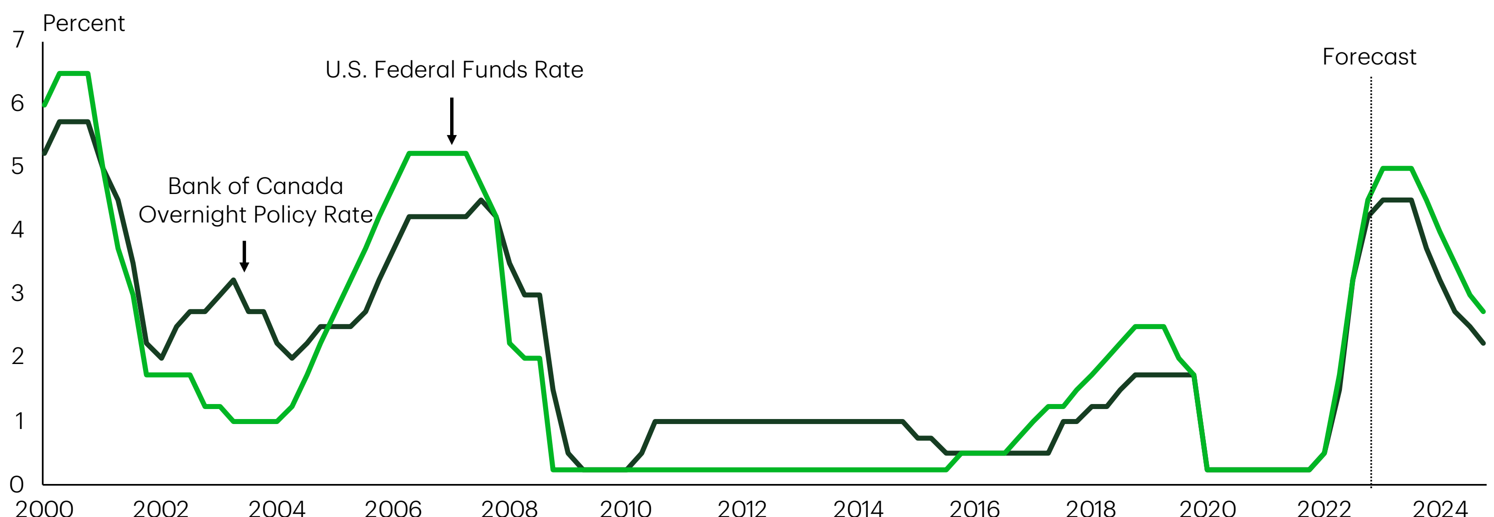
Source: Bureau of Labor Statistics, TD Economics. Last Observation: December 2022.

Probably near peak rates

"We know that Canada and the U.S. are very close to peaking — at least, I have confidence in saying that, particularly for Canada. ..."

TD Economics, on January 16, was forecasting one more 25-bp rate hike for Canada and another two 25-bp hikes for the U.S. In fact, Burleton says that there is a chance that interest rates will come *down* by the end of 2023. This, however, will depend on the strength of the labour market. Wage growth in the U.S. has come slightly off its peak, but the Fed will need to see much more — likely within two quarters — before it begins to signal the possibility of a rate cut.

Figure 6: Looking past peak rates to rate cuts



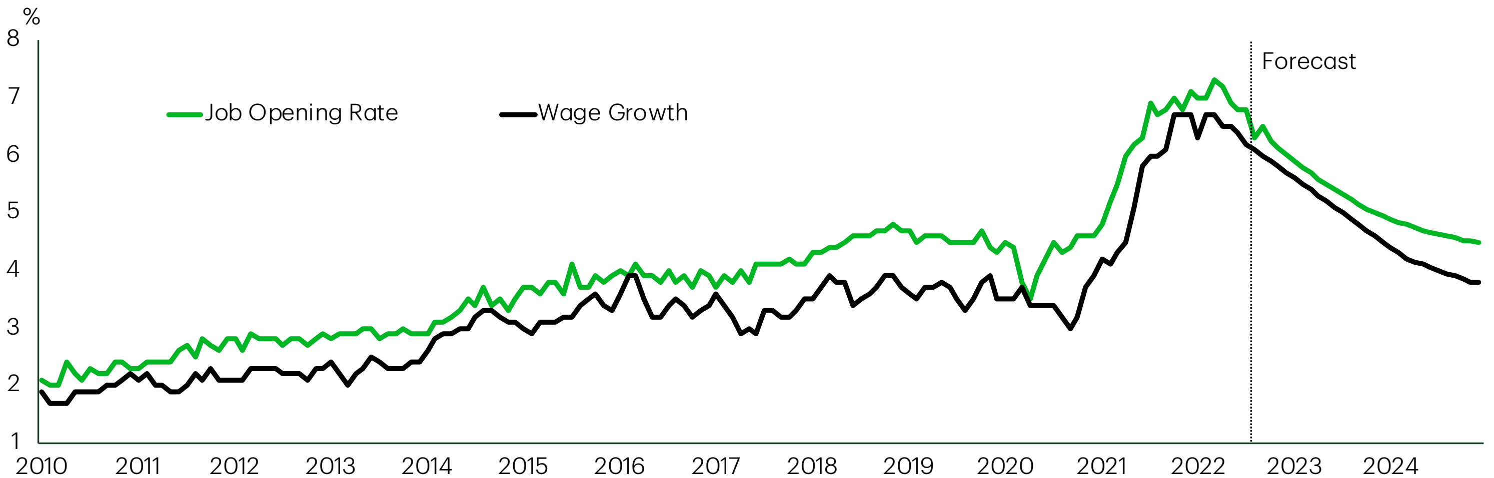
Source: Bank of Canada, Federal Reserve, TD Economics. Forecast as of December 2022.

The job market is the lynchpin

"We have very tight labour markets, very high job-vacancy rates and wage growth that's not really rolling over yet. But give it two to three quarters ... and I think we'll get there."

So far, there's little sign that the job market has loosened. (Indeed, January non-farm payrolls blew past expectations, generating 517,000 new jobs versus an estimate of 190,000.) If wage growth does not subside, the Fed may have no choice but to continue to raise rates. What makes this environment even more tricky, according to Burleton, is that there's no historical precedent. The confluence of the Great Retirement (of baby boomers), a once-in-a-century pandemic and the war in Ukraine have generated unique crosswinds that make predictions difficult. From the Fed's perspective, however, wage growth will be key.

Figure 7: U.S. labour demand too strong to restore balance



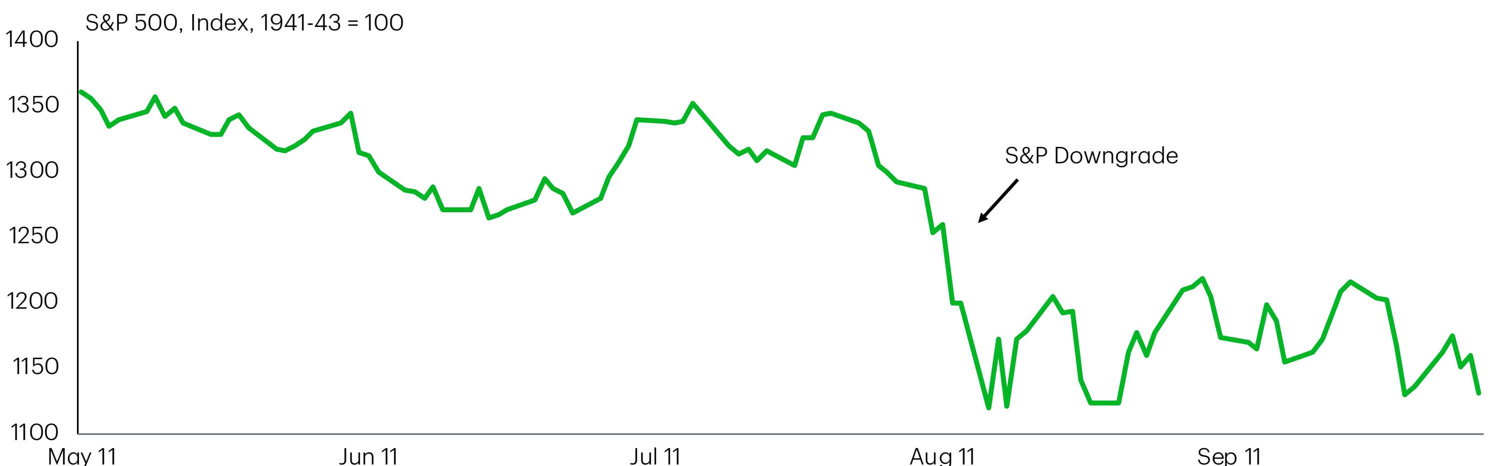
*Wage growth is shown in year/year (3-month smoothed) % change and is lagged by 8-months. Source: Bureau of Labor Statistics, Atlanta Federal Reserve, TD Economics. As of January 2023.

But geopolitical monkey wrenches abound

"As of this week ... they've got six months of extraordinary measures to fund government without borrowing more. The problem is, that takes you to June, so the second half of this year could be interesting. We could get increased volatility ahead of that."

This risk within the political arena is one that we are watching closely. The Republican-led Congress has already indicated that it wants spending cuts before it authorizes an increase to the debt ceiling. The U.S. government has already enacted "extraordinary measures," which will fund government until June. After that, credit ratings on U.S. bonds could be downgraded (as they were in 2011). Farther abroad, meanwhile, tensions with China and the war in Ukraine continue to muddy the waters.

Figure 8: Will political risks tip the scale?



Source: Standard & Poor's, TD Economics. Last observation: September 30, 2011.

2023 Market Outlook: Positioning Portfolios for the New Year

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

David Sykes

Michael Craig

Scott Colbourne

Justin Flowerday

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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, Managing Director & Head of Active Fixed Income; and Justin Flowerday, Managing Director & Head of Equities. As our panelists made clear, the market outlook — apart from a few silver linings — remains murky.

We're likely to see earnings guidance fall

"Earnings have to come down. ... Mid last year ... the expectations for 2023 earnings [per share] were US$250 for the S&P 500 — and that was just clearly unrealistic. We're now down to US$225." — Justin Flowerday

Despite the recent market rally, Flowerday and Sykes both suggested that guidance for the S&P 500 is unrealistically high. As inflation lifts corporate expenses, profit margins will inevitably shrink. The only question is when. Consensus is forecasting an economic slowdown this year, which will lead to lower earnings, eventually.

American stocks likely to remain volatile in 2023

"Whether it's Q1, Q2, I don't know. I don't think anyone knows. But without knowing anything else, we do know we're headed for some potential turbulence ... as last year's tightening flows into the real economy this year." — Michael Craig

According to Craig, the "gale force" tightening that we experienced last year has yet to make its mark on the economy. He anticipates continued volatility in the coming year and is defensively positioned.

Diversified portfolios can expect moderate returns

"Returns will be lower if inflation becomes much more entrenched at its highs. ... On the flip side, if we see rates rally ... then you're looking at more attractive returns between your carry and capital appreciation." — Michael Craig

That worst-case scenario for Craig includes a re-acceleration of inflation, which would force the Fed to hike again before the end of the year. He doesn't think that's likely, but it's not outside the realm of possibility. A healthy allocation of long-duration sovereign bonds and short-duration, investment-grade credit will help offset the risk stemming from equities this year.

The Fed may have to induce a recession

"Core CPI excluding shelter is still running at 5%, and that's fundamentally wages and salaries. We need to see that come down. Unfortunately, in my mind, the way to do that is to ... perhaps induce a recession to see some layoffs." — David Sykes

Sykes suggests that the soft landing that investors are hoping for may no longer be on the table. Earnings this year have been subdued but not terrible, and wage growth is still high. The bond market has largely dismissed the threat of persistent long-term inflation, but Colbourne and Sykes both seem to be of the mind that wage growth could be stickier than expected. According to Sykes, the "whole story" is the jobs market right now; it will dictate how high rates go.

Bonds are highly attractive

"When the price of money is essentially zero, you have a market of excess and fixed income is unpopular. Now, all of a sudden, with higher rates, fixed income is attractive, and for good reason. " — Scott Colbourne

The panelists all agree that bonds are likely to shine in 2023, with the 10-year U.S. yield up over 3.7% and 10-year inflation breakevens around 2.3%. While the prospects for equities are diminished, and assets in the alternative space are bifurcated (with strength in infrastructure and weakness in office-related holdings), bonds are underpriced and likely to outperform in a risk-off market. From a rebalancing perspective, shifting some allocation from domestic equities to domestic bonds makes a lot of sense.

But there are still pockets of opportunity in equities

"There are a lot of areas of the world that are operating on different cycles." — Justin Flowerday

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Outside North America, European equities are still seen as attractively priced, trading at around 12x forward earnings, versus 17x in the U.S. A beaten-down euro could also provide a tailwind for European stocks, and particularly European stocks that serve the reopening Chinese economy. Flowerday, for instance, points to European luxury goods, which could see a spike in demand from China. Stocks that benefit from lower-wage offshoring (in China and elsewhere) may also benefit from the wage growth seen in North America, along with companies that specialize in industrial automation.

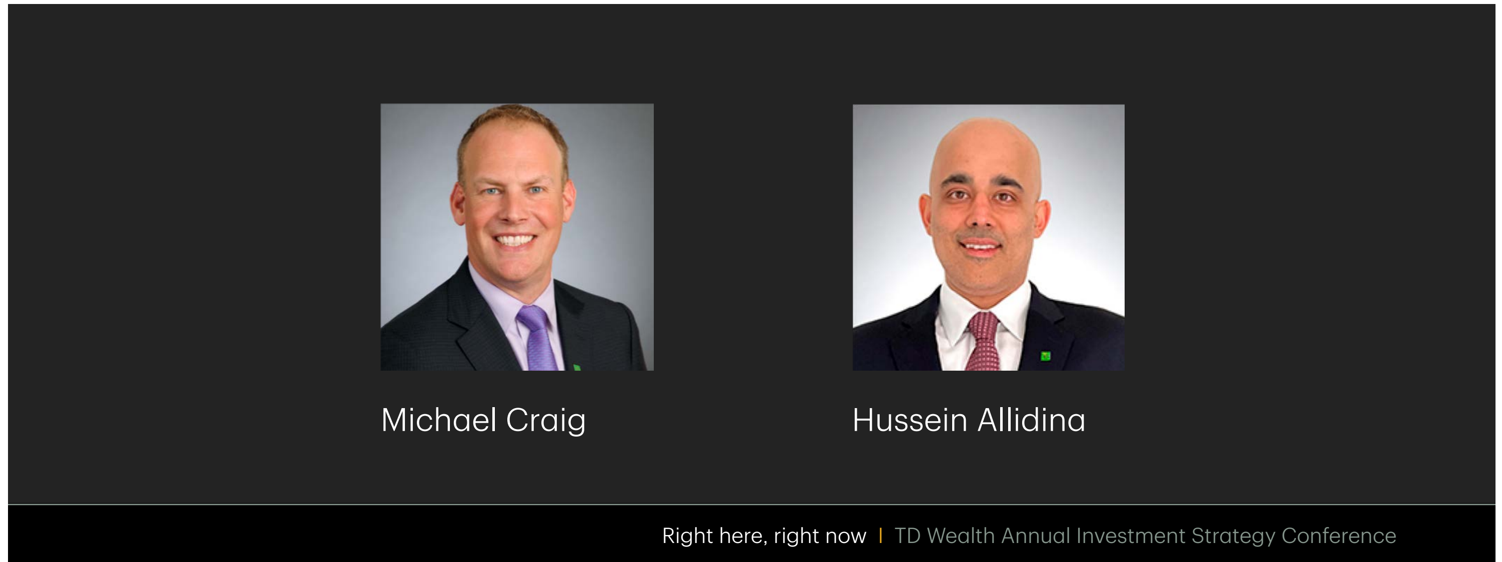
In North America, defence is the name of the game

"Utilities declined last year based on higher rates. ... [But] Canada was the first to hike, and they're going to probably be the first to cut. ... I think utilities could be interesting." — Justin Flowerday

Flowerday is positioned defensively in Canadian utilities, which boast steady cash flow. The rate sensitivity of utilities led to a steep sell-off last year, but if the Bank of Canada cuts before the Fed, as expected, the sector could enjoy a significant rally. Craig even suggests a small allocation in gold as a longer-term "insurance" play, given that central banks outside the Western sphere of influence have begun to shift from greenbacks to gold in order to weaken U.S. geopolitical dominance.

2023 Commodities Outlook

Panel with Hussein Allidina & Michael Craig



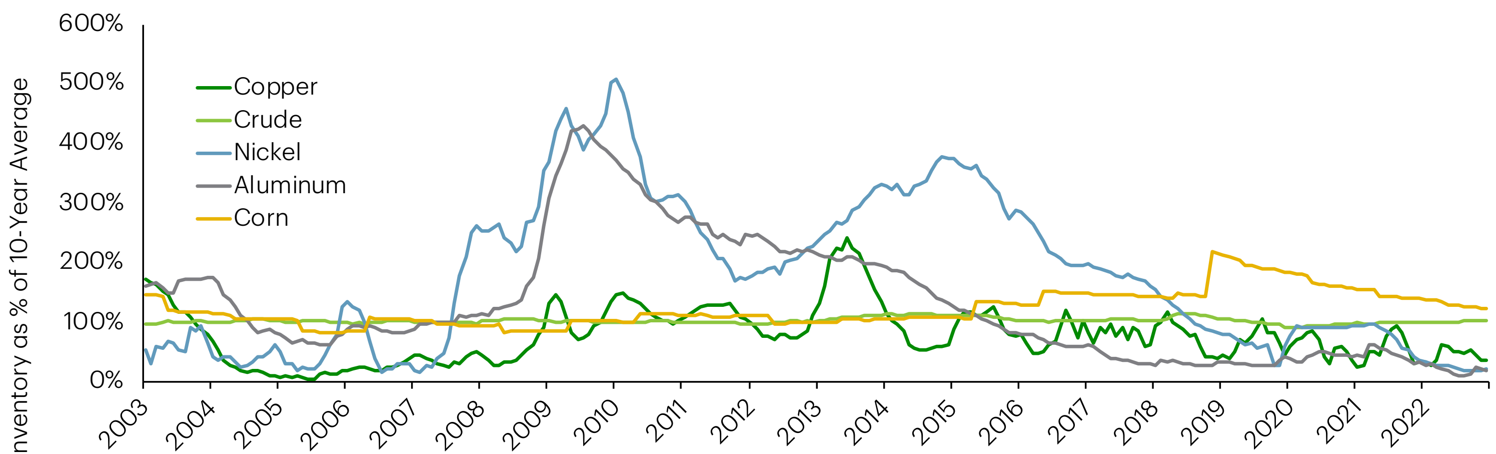
Commodities have become an important topic after a decade of underinvestment. Against this backdrop, we decided to convene a commodities panel to discuss the prospects for energy and other natural resources, and how they can be used to enhance the benefits of diversification in an investment portfolio. Michael Craig returned to the stage, alongside Hussein Allidina, Managing Director & Head of Commodities at TD Asset Management. Together, the panelists painted a picture of low investment, tight inventories and long-term investment opportunity.

Inventories for most commodities are becoming critically tight

"When you look at the numbers it is clear that we're entering into something that may be be quite untenable ." — Allidina

Commodity prices follow a cycle that's very different than the economic cycle. According to Allidina, commodities go through decade-long investment and supply phases. As the current supply phase comes to an end, inventories have become extremely tight. That is likely to drive prices up until producers see enough of an incentive to invest. Prices, moreover, are unlikely to fall significantly until new supply comes online. Over the medium term, Allidina forecasts widespread shortages due to lack of investment — all of which is bullish for commodities.

Figure 1: Inventory balances tight...



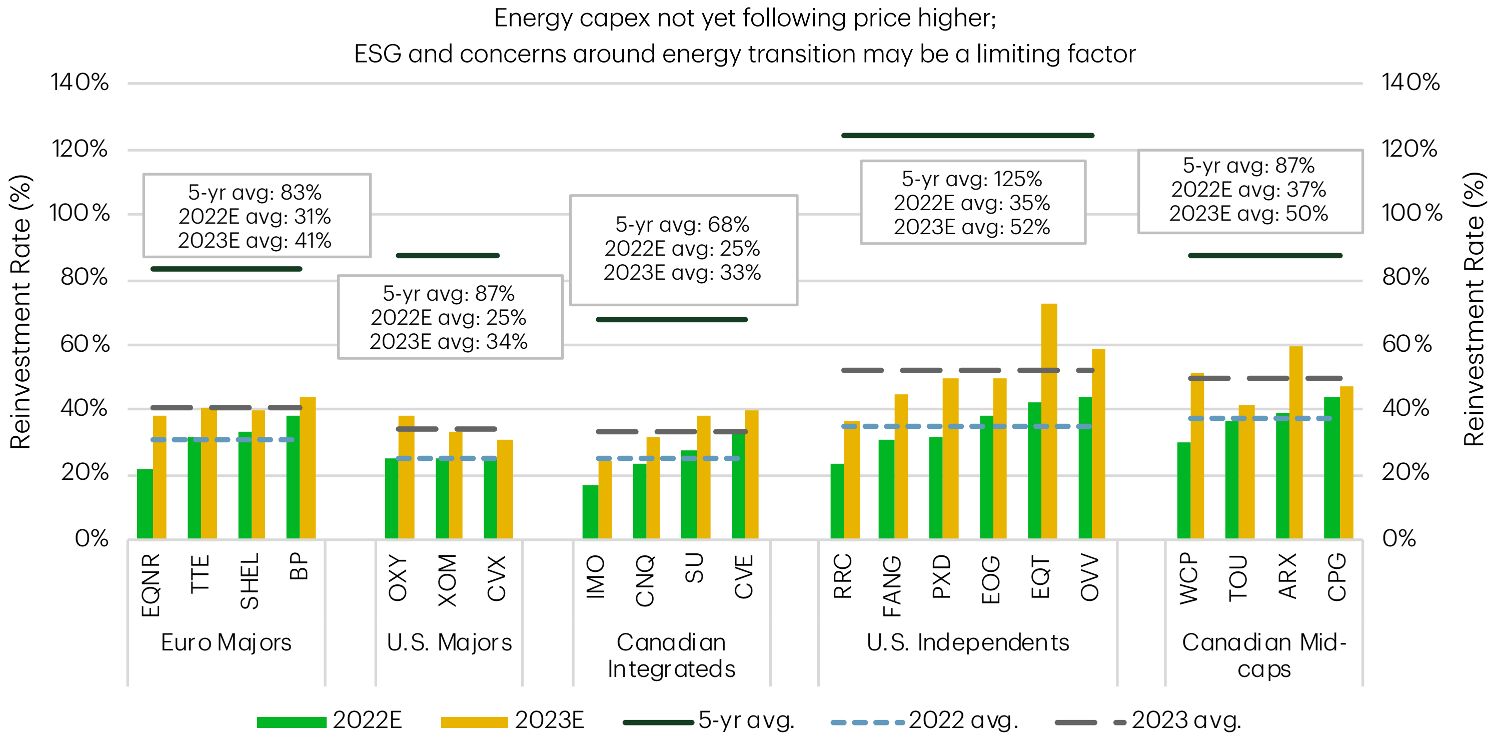
Source: Bloomberg Finance L.P. As of December 31, 2022.

Unrealistic expectations have stood in the way of investment

"Commodity prices are volatile, and part of the reason is because, in the short run, supply doesn't respond." — Allidina

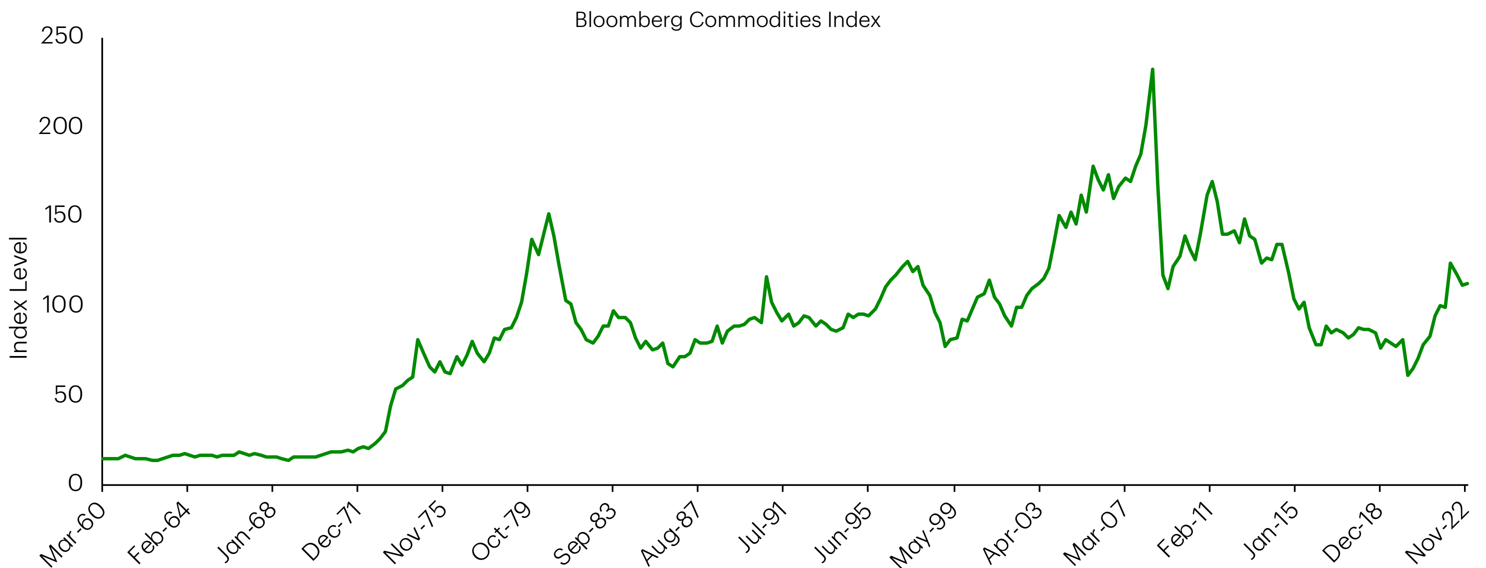
While both of our panelists are bullish on commodities, they warn that prices will be volatile over the near term given the push and pull between prices and growth. When prices spike, they naturally dampen economic growth. Weaker growth prospects then pull those same commodity prices down. Ultimately, however, an increase in demand and a dearth of supply overwhelms the balance, forcing prices higher again until suppliers can get their resources to market and find a balance. Investors need to keep in mind that commodity cycles run in decades, not quarters.

Figure 2: Weak prices limit capex



Source: Goldman Sachs Global Investment Research, as of December 13, 2022.

Figure 3: Commodities breaking out of a near 15-year bear market



Source: Bloomberg Finance L.P., as of December 2022

2023 Keynote Speaker: Mario Giannini

Fireside chat with Mario Giannini, CEO, Hamilton Lane and Chief Wealth Strategist Brad Simpson

Mario Giannini

Chief Executive Officer
Hamilton Lane

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One of the highlights of this year's conference was our sit-down interview with Mario Giannini, CEO of Hamilton Lane, one of the largest private-equity investment managers in the world. As head of the firm, Giannini oversees approximately US$832 billion in assets under management. He's a legend and pioneer in the private-equity world, and our very own Chief Wealth Strategist, Brad Simpson, had the opportunity to pick his brain over the lunch hour.

Simpson: My first question touches on the theme of our conference: "Right here. Right now." As you're running your business and talking to general partners, where do you think we are? How would you be framing this moment?

Giannini: I was talking to the CIO of one of our clients, and he said to me, "Mario, this is the most well-behaved bear market I've ever seen." I read all this stuff about interest rates being higher. Inflation is where we've never seen it. But interest rates are really just back to where they were 10 or 15 years ago. Did the world end then? No. His point was, this isn't an environment where you can make a blanket statement that everything has changed. That's kind of where I am. It is a huge bet to believe that everything has changed and that you're going to invest on that basis. I suspect more investment mistakes have been made assuming that something was dramatically different. Maybe that is the case, but what are the odds? I think they're very small.

Simpson: How much do you hear about inflation in your travels?

Giannini: A lot. It's a huge concern. Where I hear it, interestingly, is more on the wage and labour front. People have trouble hiring, people have trouble retaining. It's that kind of thing.

Simpson: I'm going to go from there to one of the most difficult questions. When we ask investors would they consider going into private markets, they say, "No, this stuff hasn't been marked down yet." If there's one big question out there, that's it.

Giannini: That's the question everyone has. We run valuations every month on the private companies in our portfolios. We expect that within the venture and the high-growth space there are probably some valuation adjustments to come. But that is not where most of private equity is located. Private capital is generally invested in mature companies. ... That is not to say valuations won't come down next year, but if they come down, it will be because we're in a recession and even then, it will be selective.

Simpson: And I think the follow-up to that is about capital. When you're talking to general partners and folks who are managing, there's a perception that capital is hard to come by. What have you been seeing on that?

Giannini: There's no doubt that doing a deal in today's environment is harder. Financing is more expensive and it's harder to get. But that's not why deal activity is slowing down. Deals are getting done more slowly because people are uncertain. It's not a financing issue. It's really more a question around, what am I willing to pay for this asset? You know, if I was here a year and a half ago, the thing you would have said to me was, "I don't want to be in private markets because valuations are too high." Now we have had a price correction and investors are still reluctant to invest. It's amazing. We always have a reason not to invest.

Simpson: We love to herd, right?

Giannini: Yeah, and people say, I can't buy now. You know, the question I have been asked every single year that I've been in this business — 32 years — is whether now is really the right time to get into private markets. It is always the question. They always find a reason not to do it. But I'll give you a statistic. In 22 of the last 22 years — I only went back to 2000 — private equity has outperformed the public markets. Private credit has done it in 21 out of 22. And so, of course, most of you are going to say, oh, that can't continue. But I could have been here six years ago and you would have said the same thing. I don't know. Maybe one year it won't.

Simpson: That does lead to the obvious question. In your view, why? Why does private equity outperform?

Giannini: I think it outperforms because it is very simply a better model. Everybody at a private-equity firm is aligned around one goal — to increase the company's value. In 10 years, I'll come back here — people don't believe it — but I will tell you, most of the institutional world, and many individual investors, are going to have a lot more of their assets in private capital. And so, the question then is, how do you do it? How is your portfolio going to look with more alternatives, less liquidity? How are you going to deal with that? And that, to me, is what the next 10 years will be all about.

Simpson: That's really interesting. Here at TD Wealth, we call that the "New Standard." I do think that there's going to be appreciable growth in privates as well. Your firm allocates about $35 billion a year. Sitting here at the beginning of 2023, and looking out over the next 12 to 24 months, what does that allocation look like?

Giannini: For us, portfolio construction is critical. You can't go all in, all out, in private markets because they're illiquid. You can't decide, oh, I didn't mean to invest in Europe. I'm going to get out now. So, we have a framework that I'll call an "all-purpose" portfolio, but then you sort of lean in and out of certain sectors. So, when you think about the market today, we're probably still in more of a value orientation because I think that segment of the market is probably going to do better over the next couple of years than growth. But this cycle will not be different from every other.

First, you're going to have really interesting credit opportunities. Companies are going to need money. They're not going to want to do it with equity because they don't know how to price it. So, they're going to do credit. Then you're going to get secondary opportunities, and so we're leaning into that because people are going to want to sell assets that they no longer want to hold. And then we'll go back into a normal world. In terms of geography, we're probably more U.S.-oriented because we think European companies are going to have a bigger struggle — but only at the margin, it's not a wholesale shift. This is what happened in '87, in '92, in 2001 and in 2009. Again, to that original point, do we think it will be that different this time? My answer is probably not. History doesn't repeat, but it rhymes.

Simpson: A round of applause for our amazing guest. [Applause.] Thanks very much.

Giannini: Thank you.

Market Performance

Canadian Indices ($CA) Return	Index	(%) 1 Month	(%) 3 Months	(%) YTD	(%) 1 Year	(%) 3 Years	(%) 5 Years	(%) 10 Years	(%) 20 Years
S&P/TSX Composite (TR)	80,772	7.41	7.81	7.41	1.55	9.50	8.69	8.27	8.89
S&P/TSX Composite (PR)	20,767	7.13	6.90	7.13	-1.57	6.24	5.42	5.05	5.92
S&P/TSX 60 (TR)	3,966	7.38	7.28	7.38	0.88	10.07	9.23	8.90	9.24
S&P/TSX SmallCap (TR)	1,316	8.90	13.79	8.90	-0.13	11.36	5.38	4.85	0.05
U.S. Indices ($US) Return									
S&P 500 (TR)	8,692	6.28	5.76	6.28	-8.22	9.88	9.54	12.68	10.28
S&P 500 (PR)	4,077	6.18	5.28	6.18	-9.72	8.12	7.62	10.53	8.12
Dow Jones Industrial (PR)	34,086	2.83	4.13	2.83	-2.98	6.45	5.44	9.42	7.48
NASDAQ Composite (PR)	11,585	10.68	5.43	10.68	-18.65	8.18	9.34	13.94	11.47
Russell 2000 (TR)	10,148	9.75	5.02	9.75	-3.38	7.51	5.54	9.36	10.03
U.S. Indices ($CA) Return									
S&P 500 (TR)	11,603	4.75	3.44	4.75	-3.67	10.21	11.36	15.99	9.53
S&P 500 (PR)	5,442	4.64	2.98	4.64	-5.25	8.43	9.41	13.78	7.39
Dow Jones Industrial (PR)	45,503	1.35	1.85	1.35	1.83	6.76	7.20	12.63	6.75
NASDAQ Composite (PR)	15,465	9.09	3.12	9.09	-14.62	8.49	11.16	17.29	10.71
Russell 2000 (TR)	13,547	8.16	2.72	8.16	1.41	7.82	7.29	12.58	9.28
MSCI Indices ($US) Total Return									
World	12,532	7.10	9.78	7.10	-6.99	8.10	7.05	9.64	9.30
EAFE (Europe, Australasia, Far East)	9,726	8.11	20.43	8.11	-2.33	4.74	2.63	5.44	7.56
EM (Emerging Markets)	2,584	7.91	22.25	7.91	-11.73	1.77	-1.11	2.45	9.53
MSCI Indices ($CA) Total Return									
World	16,730	5.56	7.38	5.56	-2.38	8.42	8.83	12.86	8.56
EAFE (Europe, Australasia, Far East)	12,984	6.55	17.80	6.55	2.51	5.04	4.33	8.54	6.84
EM (Emerging Markets)	3,450	6.35	19.58	6.35	-7.35	2.07	0.54	5.46	8.79

Currency									
Canadian Dollar ($US/$CA)	74.91	1.46	2.24	1.46	-4.72	-0.29	-1.64	-2.86	0.68
Regional Indices (Native Currency, PR)									
London FTSE 100 (UK)	7,772	4.29	9.54	4.29	4.12	2.17	0.62	2.16	3.97
Hang Seng (Hong Kong)	21,842	10.42	48.72	10.42	-8.23	-6.02	-7.86	-0.83	4.38

Benchmark Bond Yields	3 Months	5 Yrs	10 Yrs	30 Yrs
Government of Canada Yields	4.42	3.03	2.92	2.98
U.S. Treasury Yields	4.69	3.62	3.51	3.64

Canadian Bond Indices ($CA) Total Return	Index	1 Mo (%)	3 Mo (%)	YTD (%)	1 Yr (%)	3 Yrs (%)	5 Yrs (%)	10 Yrs (%)
FTSE TMX Canada Universe Bond Index	1,084	3.09	4.24	3.09	-5.75	-2.14	1.05	2.02
FTSE TMX Canadian Short Term Bond Index (1-5 Years)	743	1.36	2.10	1.36	-1.81	0.14	1.33	1.49
FTSE TMX Canadian Mid Term Bond Index (5-10)	1,198	3.29	4.06	3.29	-4.82	-1.19	1.58	2.30
FTSE TMX Long Term Bond Index (10+ Years)	1,698	5.45	7.42	5.45	-11.41	-5.74	0.21	2.47
HFRI Indices ($US) Total Return (as of October 31, 2021)								
HFRI Fund Weighted Composite Index	17,960	2.80	3.75	2.80	0.61	6.84	4.54	4.72
HFRI Fund of Funds Composite Index	7,238	1.73	3.06	1.73	-1.13	4.19	2.89	3.46
HFRI Event-Driven (Total) Index	20,546	3.55	4.26	3.55	0.51	6.77	4.68	4.97
HFRI Equity Hedge Index	27,689	4.24	6.54	4.24	-2.46	7.60	4.83	5.66
HFRI Equity Market Neutral Index	6,092	-0.10	0.70	-0.10	1.73	2.63	1.57	2.87
HFRI Macro (Total) Index	18,959	0.26	-1.70	0.26	8.39	7.39	4.28	2.95
HFRI Relative Value (Total) Index	14,282	1.95	3.25	1.95	1.16	3.89	3.56	4.05
HFRI Indices ($CA) Total Return (as of October 31, 2021)								
HFRI Fund Weighted Composite Index	23,926	1.22	1.34	1.22	5.55	7.07	6.19	7.79
HFRI Fund of Funds Composite Index	9,643	0.17	0.66	0.17	3.72	4.42	4.52	6.51
HFRI Event-Driven (Total) Index	27,372	1.95	1.83	1.95	5.45	7.00	6.34	8.05
HFRI Equity Hedge Index	36,888	2.64	4.07	2.64	2.34	7.84	6.49	8.77
HFRI Equity Market Neutral Index	8,115	-1.64	-1.64	-1.64	6.73	2.85	3.18	5.90
HFRI Macro (Total) Index	25,257	-1.28	-3.98	-1.28	13.72	7.63	5.93	5.97
HFRI Relative Value (Total) Index	19,026	0.38	0.85	0.38	6.13	4.12	5.19	7.11

Sources: TD Securities Inc., Bloomberg Finance L.P. TR: total return, PR: price return. As of January 31, 2023.

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