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## What lies beneath the cheerful returns

*By Yoonjai Shin, CFA*

*Vice-President & Portfolio Manager, Multi-Asset Management*

This holiday season, investors can be cheerful about recent outstanding equity market returns and the increasing likelihood of business-friendly tax reforms by the U.S. government. However, it is important to acknowledge the worsening imbalances that lie beneath the glittering peaks of today's elevated asset prices. Low interest rates since the financial crisis in 2008-09 have greatly benefited investors but have done little to benefit the average household. In the United States, real hourly wages have grown at a meagre 0.4% annual rate since March 2009 while over the same period, real gross domestic product advanced at a 2.1% pace and the S&P 500 Index soared an annualized 15% in real terms. To avert a serious depression, central banks created unprecedented stimulus packages to inject liquidity into the financial system and restore investor confidence. Unlike holiday gifts, the stimulus packages came with a lasting cost that will continue to affect the global economy for years to come.

Instead of investing for growth in the low interest rate environment following the financial crisis, many large businesses have used cheap borrowing costs primarily to fund dividends and share buybacks, the latter of which tend to exaggerate the illusion of profit growth through inflated earnings-per-share ratios as the number of shares is reduced. Buybacks have been a contributor to the supercharged performance of the stock market in the years after the financial crisis, adding about three percentage points per year to total returns. The long-term cost of this quick fix may be reduced future earnings growth potential due to less capital being allocated toward growth-enhancing areas like capital expenditures and research and development spending. Returning cash to shareholders through buybacks and dividends has been a boon to investors thus far but it, along with high valuations, may come at the expense of long-term share performance.

Deeper beneath the surface, a fundamental issue that policymakers are failing to address is the growing wealth inequality among households in many nations. Efforts led by the U.S. Congress to reduce publicly funded health care while cutting taxes for corporations threaten to exacerbate this issue. Capitalism is an ingenious system which has worked wonders for many societies. However, it is not without its flaws, especially when there are gaps in governance allowing powerful corporations and special interest groups to influence policies in their favour. Investors ought to be concerned about the higher strain on public resources that comes with supporting a growing wealth gap as well as the possibility of a revolution. And ultimately, businesses cannot survive if there are no longer enough consumers to purchase their products or services. If this issue is overlooked for too long, it has the potential to reduce long-term economic growth.

Thankfully, as multi-asset investors, we can navigate the challenges presented to us and find ways to profit

using a variety of investment tools and strategies. We do not need to start revolutions to achieve success. But there can be significant benefits to applying a revolutionary mindset to investing, as it can help steer investors away from the draw of the crowd and toward opportunities that offer superior risk-adjusted return potential. Today, the broad-based optimism seen in high equity valuations, tight credit spreads and low volatility measures tempered with a flattening yield curve suggest that we are in the late cycle stage of the global business cycle. We are working to identify risks that lie below the surface when we look through our cyclical and structural lenses. However, don't get us wrong. We are indeed feeling cheerful this holiday season about participating in the equity market's upside while we diligently prepare for potential downside risks. We look forward to updating you in the New Year.

Happy holidays and thank you for your continued trust and support.

*Combined top 15 equity holdings as of November 30, 2017 of the Evolution 40i60e Standard portfolio with Alpha-style exposure:*

1. Microsoft	6. UnitedHealth	11. AltaGas
2. Canadian Natural Resources	7. Atco	12. SNC-Lavalin
3. Apple	8. Athene Holding	13. Suncor Energy
4. Alphabet Class A	9. Gilead Sciences	14. Wells Fargo
5. Walgreens Boots Alliance	10. Praxair	15. Symantec