What it Would Take for Canada to Outperform the US

Speaker Key:

DP	David Pett
JC	John Christofilos
KM	Kevin McCreadie
MA	Mike Archibald

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00:00:00	DP	Welcome to AGF Inside Perspectives. Hey, guys. How's it going?
	JC	David?
	KM	All right, David?
	DP	Er, I apologise for the nasally voice. I have been pretty sick the last couple of days.
	JC	You've [overtalking] you've never sounded better.
	DP	Er, but I've... I'm on the mend. Um, I was going to start, er, today's conversation by telling you, Kevin, that I was at a record shop on the Danforth this weekend, and I came across a section, a dedicated section, to Southside Johnny.
00:00:32	KM	And the Asbury Jukes, man.
	DP	That's right. And then I looked him up, and he's still touring. He's going to be in Europe this year, [overtalking].
	KM	He's got to be, he's got to be 80, but…
	DP	Yeah. I also realised today, it came across my feed, that today is the 40th anniversary of the release of Born in the USA by Bruce Springsteen. 40 years. And I know you're a big fan of Bruce, Kevin, and, er, you've probably had sightings of him in your early days, er, in New Jersey. Would you consider him your favourite artist of all time?
00:01:05	KM	Yeah, he's up, he's up there, for sure. I mean, er, I'll top you on, on Born in the USA, Born To Run will be 50 years next year, which is also shocking. But yeah, he was, you

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		know, he and Southside Johnny were old Jersey guys. They, they were beach guys, right? So…
	DP	So the ranking in New Jersey, er, rock lore is probably Bruce and then Jon Bon Jovi, and then Southside Johnny or…?
00:01:28	KM	No. I think Southside Johnny would squeeze in there ahead of Bon Jovi.
	DP	John, did you listen to a lot of Bruce, or what was your taste in music growing up?
	JC	I'm more of a…
	KM	He was a Stones, Stones…
	JC	AC/DC, Led Zeppelin, more hard rock...
	DP	Yeah, yeah. Nothing embarrassing about that.
	JC	I still love listening to it every day, going up the Don Valley, 70s on 7, and classic rock…
	DP	In your, in your fast car, too, because I'm guessing you had, like, a Camaro or a…
	JC	A Trans Am, my friend. With the big bird on the front. Okay? I told you, I, I, I, did, I swear.
	DP	Really, did you have the big bird on it?
	JC	I have a picture, I can show it to you after, David, yes.
	DP	Nice. We might have to post that to the website.
	JC	It was a very popular car in high school, let me tell you.
	DP	There you go.
	JC	I'll leave it there.
00:02:06	DP	Okay. Er, let's, er, invite our guest in, er, now, if that's okay with you guys? Um, he's a huge, er, Tom Petty fan. Um, he's also a native Waterlooer. I think it's Waterlooer. We're debating whether it's Waterlooean, but Waterlooer's cool. He's a Wilfrid Laurier University alumnus. He's a devoted hockey dad. And he's, er, he's a really solid, good dude. Let's give it up AGF Investments

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		Inc. portfolio manager Mike Archibald. Good seeing you, man.
00:02:43	MA	Thank you for having me. You obviously got my EE transfer [?] to say nice things about me, so I appreciate that.
	DP	There you go. Yeah, so, er, maybe my first question on this music bent, um, what's the, what's the fascination with Tom Petty, or how did you get, kind of, into his music?
	MA	Ah, I've been a Tom Petty fan for as long as I can remember. I mean, I think you, you come through music by your parents, right? And both my parents were rock and roll fans. Still are. Um, you know, so, I remember listening to Tom, records of Tom Petty, when I was eight, ten years old.
00:03:12		And, I mean, music is different things to everybody, right? For me, it's, you know, it's obviously the sound and, and the lyrics. And he was pretty simple with both, right? I mean, you guys would know so many Tom Petty songs that you probably don't realise are his. So he just, you know, driving down to the US, listened to cassette tapes in my dad's van, right, that's, that's where I came up with it.
	DP	The eight-tracks, yeah.
00:03:35	MA	Just amazing. I, I spent thousands of hours listening to Tom Petty. Seen him ten, 12 times in concert. I mean, he's just… He was the top of the heap for me.
	DP	And unfortunately, um, Tom passed away probably a couple of years now, right?
	MA	October 2nd, 2017. And I can, I remember that date because we were in the old TV tower, and it came across the feed, one of the Bloomberg chats that were on at [unclear], and, er, RIP TP. And I had to think that through. I'm like, er, didn't really make a lot of sense to me. And then I looked it up, and I was like, oh, my goodness, right?
00:04:07		Yeah, I mean, he, he went the way of a lot of rock and roll guys, unfortunately. He had a broken hip, he was playing concerts with a broken hip, and he overdosed

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		on pain medication. And so an untimely end to, you know, a pretty awesome career, right?
	DP	Yeah. Hopefully, there's a good tribute band out there so you can, you know, get, get out to see something live from his music.
	S4	There's one coming into Oakville in a couple of weeks, so I will be there.
00:04:30	DP	There you go. Okay. Let's, er, let's get into what we, er, came here to talk about, and that's markets. And, Kevin, as always, we can start, er, with you. Er, it's been about a month since we last spoke. In that time, we've hit new all-time highs again, um, across global markets in the US, Canada, and elsewhere. I guess my first question, er, and then we'll go around the table, is what's driving the latest leg in this global equity rally?
00:04:57	KM	It's probably the reverse of what caused the sell-off in April, right? In April, we were basically heading into the Fed meeting, um, we had some hot economic data. You had a hotter than what people wanted in a CPI print in the US. PPI was hotter. The jobs report had some elements of hotness to it. And then, and so the market was basically repricing out this idea that, gee, the Fed is getting ready to cut rates by June.
00:05:24		Um, you've got to remember, we started the year with, um, people thinking that there are going to be six or seven 25-basis-points. So think about that. You know, between one and three-quarters kind of reduction in rates by year-end. We've successfully navigated that out. So what May was was essentially a very dovish commentary on May 1st by the Fed chairman. Powell basically said, hey, we're not even thinking about raising rates, which people started to fear, and we're just a little delayed. You know, we're just going to wait and see a little bit.
00:05:57		Um, that has been successful. We've taken that January, we're going to cut six or seven times down to one, and maybe after the US election in November, December. And the market has accepted that. And they've accepted it, because it's not this thing they feared, which was it's not only not going down, it's sticky, and inflation going up, it's going to mean they're going to have to start doing, er, more, er, restraint, higher rates. And that they took off the table.

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00:06:25		Um, having said that, the market, as I said, great month, um, I think we finished, depending on which market you're in, but take the S&P, it probably recovered almost 5%. And that's with a bunch of guys coming after Jay Powell who were Fed governors, saying we're not in any rush. And they were pretty hawkish, and the market kind of shrugged it off and said, that's… We're okay for now, as long as it wasn't a hike. So I think that's the major theme difference.
00:06:49		And then I'd say the other two is data is now starting to show up weaker in May, un, which really kind of relieves the market for now of this idea that any kind of a rogue, low-probability event of a higher rate environment is off the table. Having said that, also, be careful what you wish for. Weaker data at some point shows up as weaker profits, er, and a slowdown turns into something else.
00:07:11	MA	Yeah, and, David, as you all know, my perspective on the markets is a little bit different than Kevin's and Mike's, right? They have to look at it long, long term. On a short-term basis, there are a couple of things that really concern me. One, I think we ran too, too quickly to where we got. U, there wasn't enough of a pullback to give a little bit of breadth to the market. So I would expect a bit of a pullback here in this market, er, just a level-setting, try to eliminate some of the weak hands that are in the market. That's the concern, number one.
00:07:38		Concern number two is we've been driven by, again, a handful of stocks. It's not the breadth. It hasn't been all that great. Um, you know, the names, we talk about them all the time. And they continue to drive this market higher, and more and more capital continues to be driven into those handful of names. So that's not healthy. We need a broadening out of the market, and we need a bit of a check-back. If we get those two things, er, I think we, we can take the next leg into the US election, which is typically a strong period leading into the election. But I think we need to have a little bit of a reset before we get there.
00:08:08	DP	So before I get to Mike, just, just a quick question, John. Like, in terms of that pullback, you mentioned that we probably didn't get enough in, in April, I think we were down, in the US, what, about 5% or something like that?
	MA	Yes, just shy of 5%.

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	DP	So in your mind, what would kind of be what we needed to get to, or what, what do you expect might happen as it goes forward?
00:08:26	MA	Yeah, it wasn't that we didn't have enough the first time, but then we just bounced too quickly off that 5%. And so we need another one. We need, we need, we need a level-set. And, and, and we're not there. Not quite there yet.
	KM	This market hates uncertainty right now. And when it gets uncertain about things, and what it is uncertain about right now is when, right, we've taken off the it's not going higher, meaning rates, but when are we going to cut?
00:08:50		And so, when you're uncertain, even though the market powered forward, to John's point, the headline S&P had a five handle on it. The average stock, or the equal-weighted S&P, had a two handle on it. Year to date, the S&P has got a ten-ish kind of return, the equal-weighted stock's half that. So that's that breadth argument. And it's going to it's going to stay this way. Maybe not to the same degree we just saw this month, but until you start to cut rates and can start to basically broaden the market out by economically creating demand, again, for things, right, that broadens across multiple sectors.
00:09:24	DP	Mike, any thoughts from your end?
	MA	Yeah, I mean, to me, there's a couple of things. Obviously, the resurgence we saw in technology was a key theme, right? We, we know what's driving that. This AI theme, you know, kind of goes in waves. You know, you get a huge move, er, everyone's talking about it, buying it, and then it sort of settles out. And we, and we saw that again. The other real theme that I think was new this, this month, at least, was this, this sort of demand for power. Okay, we've talked a little bit about this before. I know you guys have talked about it. We talk about it regularly on our calls.
00:09:54		But utilities was the second best performing sector in the month, right? Er, technology up 10, utilities up 8.5. Those aren't usually, er, sectors that are moving in unison. And, and so the theory around this is obviously that data centre demand is going up, everything is AI nowadays, and we're going to continue, er, to need more electricity and power demand. And so let's not let facts get in the way of a good story. Um, you've got to remember, these

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		are regulated companies, the vast majority of them, they cannot earn a significantly higher than, you know, mid to high single-digit return. So, you know, I think you probably see that level set itself a little be.
00:10:28		Um, the other point I would just say, and I talked about it, you know, a couple of times, is, I think we're in this, what I'll call this, kind of two-speed recovery. Okay, so the US has been the real leader of the market, as everyone knows, the data has been great, as Kevin alluded to, we're starting to see possibly a little bit of a softening in, in, in the US data. What’s happening at the same time, though, is you’re starting to see an uplift in other parts of the market, so emerging markets, you know, China’s really stimulating, you know. Germany bottomed last year, they’re starting to turn higher now.
00:10:56		So you're going from contracting to neutral in a lot of the world, or from neutral to, you know, slight growth, and that's really having a bunch of, you know, implications for what sectors are leading in various parts of the market. And so you're starting to see early cyclicals participate to a much greater degree in, in China and, er, and other parts of the world.
00:11:16	KM	I think one other thing for the month, too, that we saw was the resurgence of the, of the day trade or the meme stock trader, right. And, again, all things are bought at the margin, right, but the volumes we saw coming out of some of these names and the price action, um, reminded us of some of this frivolous stuff that we saw in, in that post COVID period, when people had a lot of money in their pockets and were running around chasing these things.
00:11:41		And, and so, you had, you know, a couple of days, some of those names up 50%, 60%, 70%, because some guy, you know, one guy, one guy, you know, made a blog post or something or tweeted something. So I, I think that's the other thing, there’s a little bit of froth here, too, as John said.
00:11:57	JC	Just to touch on, it's a meme… One meme comment, and then a question for Michael. The meme comment is you're starting to see some of that excitement taper a little bit. So, Roaring Kitty as, as he's called, is putting now more and more tweets out, and the stocks aren't reacting like they did, right? So, there might be some exhaustion in that trade. So, it's the only meme comment I'm going to make today. Mike, I have a question for you.

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		I love the analysis of, as the US starts to soften, the rest of the world starts to pick up. Question would be, can the world take off without the US leading. Can other parts of the world lead without the US participating?
00:12:32	MA	You need the US to participate, right? But we've been saying the same thing about China. You need China to participate. And obviously, there's implications from a sector perspective as to what is leading in the marketplace. But, you know, certainly, I think if the US, you know, rolls over, I, I don't think we're thinking recession, but if that were to be the case, it's pretty hard for the rest of the globe to make up for that, right? So, you know, we need coordinated growth. We haven't had that, you know, basically since all the stimulus came in 2020. Um, so, it's going to be tricky, right?
00:13:01		And to be clear, like, you know, the rest of the world is not exactly accelerating at a real fast pace. They're just coming from along the bottom to something that looks a little bit better. Um, you know, so, it's very early days. It's green shoots on that. Um, I'm not entirely convinced that the US is rolling over, um, you know, at least rolling over hard. It’s definitely softening. We're seeing a lot of the data there that's saying softening, but it's not, it's not, you know, falling off a cliff, at least from what, what I look at, at the moment. LEIs, or leading economic indicators, are slowing a little bit. Um, you know, we have to continue to watch that carefully.
00:13:34	KM	I mean, the key for the US is the labour market is, is still pretty strong. You've got a 3.8% unemployment rate, right? So the job market's been good. Um, I'd say the other thing for the US we've talked a lot about is just the structure of the housing market, right? Um, for half of society, you know, that upper middle class that can own a home, they locked in at 2% and 3% mortgage rates for 30 years in COVID. They're not moving. And you see that because existing home sales are negative. Nobody's leaving their house to trade in that two and change mortgage for something with a seven on it.
00:14:05		But the lower-end consumer, which doesn't own a home, um, and rents, rent prices have been higher and is sensitive to energy prices, which have been higher up until recently, er, and food prices, which, um, from the COVID low, are probably 30% higher, is really feeling it. So when you break it down by the pieces. There are patches of softness. When you aggregate it, it looks

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		okay. Very different from Canada, where most people who have adjustable mortgages are facing these refi cliffs. It's a very different feel for the middle-class consumer here.
00:14:36	MA	We're also right on the cusp of the easing cycle beginning in various parts of the world. So, we're finally getting to the point in time where the restrictive policy is going to be a little less restrictive, if you want to call it that. Um, you know, at the margin, that should be helpful for those parts of the market. I mean, Canada's had effectively no growth for almost six quarters, right? So, like, we're not growing here. The mortgage issue is, is a big issue in Canada, right? Like, you know, people don't leave their homes, but they will spend less on discretionary items. And we've seen that time and time again for several quarters.
00:15:06		So, at the margin, those are, you know, I think, helpful, er, for economic growth in Canada. And, again, as I said, it's not going to make a huge difference to global growth, but at the margin it should start to help.
	KM	I'd throw one thing in, I think Mike's actually right. The other thing to remember is the US, the central bank there, has a dual mandate, keep everybody employed, and let's keep inflation in check. Canada, we've only got one, which is inflation.
00:15:28		And when you take out the kind of circular nature of the CPI calculation here, which puts mortgage payments in it, so each time they raise rates, it raises it, but if you strip that out, we're now approaching a place where inflation, ex that mortgage and housing costs, is running in the twos. So, and I think the consumer here, again, has to make discretionary choices. When, all of a sudden, their mortgage resets to a big number, they're not going out to dinner, they're not buying things. So things will soften quicker the longer it takes for them to wait.
00:15:58	JC	We had an excellent discussion on the floor this morning, David, about the US consumer, right, and somebody brought the topic up of employment, right? So, yes, things are slowing, but they still have their job, so they're going to continue to spend, but at a slower pace than what they, they did six months ago or 12 months ago. Er, so, to Kevin's point, keeping a very close eye on that employment number is vitally important to the future of the US economy.

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00:16:21	KM	And talking about this, this, what I call this bifurcated consumer, if you look at Walmart, it's, it's pulling in higher-income people, right, who are leaving that, that place that is, what used to be, kind of the middle-class experience, low-end restaurants, Starbucks, Yum! Brands, you know, real fast food stuff, again, low-end into the economy, are missing in a big way. And we're as high-end stuff, real high-end stuff, it's kind of insensitive, right, the highest-income quartile. So you're seeing this bifurcation start to show up in demand for things as well in different places.
00:17:01	MA	And you're seeing that, too, we talked about it this morning, John, as well, like, consumer discretionary staples companies are talking about affordability as being one of the main themes that's come out of the last quarter. And that's a trade-down effect everywhere, right? So, high-end guys, earners, are doing well, right? But they're looking for trade-downs. The low-end consumer is really stressed in this environment, right, and so any trade-down that they can find, they're taking, right? And so that's interesting, because that should, in theory, result in slightly weaker data, you would think over time in the US Again, doesn't have to fall off a cliff, but slightly weaker. And I think that's really what the Fed is hoping for.
00:17:31	DP	Let's stick with Canada just for the, er, the end of the conversation. Perhaps we're all guilty of being a little too US-centric, and yet we're, we're here in Canada. The S&P TSX Composite Index is, is up about 18% since the end of October, I think, Mike. Question for you first, what parts of the Canadian market have, have driven this overall return?
00:17:59	MA	Yes, so the big heavyweight sectors have done a lot of heavy lifting. So, you know, materials has done very well, er, financials has done very well. Technology, those have been the three leading sectors. So that's really been the driver of a, of a lot of the returns there. Some of that has been based upon the stuff that we've seen out of China. Obviously, there's a lot of commodity buying going on there. Um, that's really moved the commodity prices, copper, gold, you know, hitting highs. Energy, up until very recently, had, had done well, um, in addition to that as well. So you've seen big moves out of those sectors.
00:18:31		I think you're starting to see green shoots in the financials sector in Canada. You're starting to see, finally, some

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		growth out of the banks on a year-on-year basis after, you know, six tough quarters where they've had loan losses moving in the wrong direction for them. So, early days there. Certainly rate cuts would help, er, on the loan demand side, um, you know, in Canada. So, er, it's early days, right, but we need to see, you know, obviously, global demand continues to pick up, and we need to see, you know, the domestic environment gets a little bit better in order for, er, for Canada to continue to work.
00:19:03	JC	Hey, Mike. So, I've been saying for years that Canadians But we need to see, can't support Canada on their own. We need foreign investment to come back. Um, numbers aren't that great at this point in time. Is there a reason why capital isn't coming to this country, er, in this day and age?
00:19:19	MA	Canada's a beta market. John. We've talked about this before, right? Like, you need global growth, right, you need domestic consumption, and you need weaker US dollar in order for Canada to work, right. You know, all three of those things have to happen in order for foreign capital to want to flow here. The tax situation in Canada is becoming more onerous by the day. Um, obviously, we know that capital is going to go to places where it can earn its best return, right. The question is, is that…? From a foreign, er, foreign money flow perspective, is that Canada? You have to have resources working in order for the Canadian market to work, right. Let's call it 30% plus of, er, of the broader index.
00:19:54		And so, er, are we in a, you know, a real commodity boom? I don't think the answer to that question is yes. I think you have to look at, you know, there's going to be cyclical bouts of, er, of strength in commodities, and we're probably in one of those right now, but I don't think we're in a commodity super-cycle. You need, you know, significant, er, global growth in order for that to happen. We have a lot of leverage on balance sheets across the world. That's not typically an environment where you're going to be able to create capital, and obviously, commodity prices would follow.
00:20:23		So I certainly think, um, there's a secular and a cyclical argument, er, to be had for, you know, Canada versus the US. Obviously, I think, you know, from a, er, secular standpoint, you've got technology which continues to work, and, as Kevin said, until rates come down a lot,

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		probably not going to see a broadening out into value parts of the market, which really is what Canada is all about, where you have financials at 30% of the index.
00:20:44		You've got the other two sectors, um, you know, materials and energy, which are typically value-oriented sectors that do well, and in, er, in environments where, where global growth is, is moving up, and that's another 30. So you're talking 60% of the index, and then industrials is another close to 15. So 75% of the index is, is really those, those parts of the market, you need global growth to be accelerating in order for that to work.
00:21:06	KM	Yeah, I'll go backwards a little bit. You know, if you look at why the S&P versus the TSX looks so different, it's also sector make-up, right, to Mike's point. You know, technology and comms services here are combined 10%. In the S&P and the US, combined is close to 40, right. Health care in the US is 12%. I think, Canada's 20 basis points.
00:21:28		So, you know, the make-up is… We are dealing with more cyclical sectors that are going to depend on restarting global economies. And, and that will happen when you start to aggressively get into a rate-cutting regime, er, to kind of stimulate demand again for things. Um, so, part of the how we've lagged is, I think, some of the darling sectors, which have benefited from some of this AI boom and other things. I mean, even the tech sector here, Mike, remind me, Shopify is half of the sector weight?
	MA	Just about, yeah, a little less than that but…
00:22:00	KM	So [unclear] known that. Right. So I, I think that, you know, there are, there are sector weighting differences that also come into play here.
	JC	Kevin, a question. Do central banks typically look at other central banks on a timing basis? Does the Bank of Canada have to jump the gun against the Fed to get our economy stimulated?
00:22:22	KM	You know, John, I know that it's in the dialogue, it's in the dialogue about FX rates, right, in every central bank, right. Currencies matter, right. If you have a really weak currency, um, you're going to… And you're fighting inflation, it's not going to help you. If you've got to pay up for things, you're going to pass that on. So it comes into play there. I would say last year, it was mostly up until,

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		um, really over the last two years, the rate hiking cycle in 2022. And last year, you could have picked any transcript of a central bank, and you wouldn't have known which one it was It could have been the Fed, could have been the Bank of Canada, a Bank of England, er, ECB.
00:23:00		Now, you're actually starting to see differences, um, because we're moving at different speeds now. If you look at the US in the fourth quarter, GDP was close to 5%. To Mike's point, Canada has been almost flat to zero. ECB has been in the flat-to-zero now for a couple of quarters, or flat-to-one rate. So, um, very large differences are starting to show up, which is changing now the speed of where these cuts show up.
00:23:25		So, yeah, does the US Fed worry that the Bank of Canada gets aggressive and they have to sit on their hands because of the US election, which we can talk about? Um, that's probably going to be an uncomfortable situation, right? You weaken the Canadian dollar, you maybe strengthen the US dollar, right, and all of a sudden the inflation thing which you're fighting pokes its head back up because you need certain goods from the US, right. That gets, that gets priced through. So I do think while it may not be the first thing they think about. It's in the dialogue.
00:23:53	MA	Canada's been typically an early mover, right, in both directions, right. And so…
	KM	Yeah, they led, they were the first…They, they were the first.
	MA	First to go, right, of the big… Of the three we're talking about, right. But I think it has less to do with coordinated policy and just more to do with domestic, you know, situation. And the mortgage market, we've talked about its problem, but the domestic consumption is very, very weak and…
	KM	Yeah, and one of the big fears, right, Mike, and, and you’ve talked a lot about this, is the fear that there's this pent-up demand, that people are on the sideline waiting, if they cut rates to drive another leg up in the housing market.
00:24:24		It clearly is in the back of the Bank of Canada's mind, but the trade-off here is every day you wait, some poor family shows up at the bank that has to refi and get

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		locked in and reset for the next three or five years at that these painful, painful differences in payments. I mean, they're locked in, you know? And so I think that there is this trade-off about, you know, are, are we willing to tolerate maybe a weaker dollar, unfortunately, and maybe a temporary spike in housing prices, to save the consumption side?
00:24:57	MA	Yeah, and I think they're, they're willing to make that trade-off. They've, they've been loath to do it for a long time, but I think they see it now ,right, that they have to.
	JC	One last, er, point on this. And this Canada and US thing, if I put you in our, in my seat on a daily basis, there is significantly more dialogue, communication on US names than there are in Canadian names. Canadian names are relatively quiet.
	DP	Even here in Canada.
00:25:20	JC	Canada, even in Canada. You know, from an asset allocation perspective, I would only think that we're no different than many of the other shops on the street in terms of allocating dollars to, to the US market. So the price discovery, and the information that we're getting on a, on a continual basis is heavily weighted to the US and Canada. That has to change for the Canadian market to take that next leg.
	DP	And has that changed over time, John? Like, do you remember ten years? Does it go waves? Is that a cyclical thing or…?
00:25:47	JC	If I go back ten or 15 years, it would have been, it would have been heavier in Canada, especially from Canadian managers. It's now gone I wouldn't say 180 degrees the other way, but it's gone a long way, where now the majority of the discussions and indications that we get and trades that we get are US, not Canadian names.
	DP	Maybe one last question, er, on this, and we can, we can talk a little bit about the US election, if, if you don't mind, but… And Mike, you kind of touched on this already, but is there a scenario in which you see Canada potentially outperforming the US market for an extended period of time?
00:26:22	MA	I think I've joked with you about this before, like, the graveyard is littered with folks that say Canada is going

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		to outperform the US. I'm in there a few times. Er, so I think you've got to be pretty careful about that. You need a structural change to what technology means in order for, for Canada to really outperform. Like Kevin said, you know, communication services and IT is 40% of the index, right, so if those keep doing well, it's almost impossible for Canada to outperform the US. So, as I said, there are some, some structural things that have to happen, right, you have to have global demand pick-up everywhere, right, in order for that to happen, because that will result in commodity prices moving up. And that will be an environment where Canada can typically do well.
00:27:00		You need the Canadian economy to turn and start to do better on a quarter-over-quarter-over-quarter basis, right, that has to happen. Then, financials can participate. So we're asking a lot, given what we just talked about here in the very short term. So, um, I think Canada can participate. Are they, is it going to be a period of sustained outperformance? It's hard to see that right now, to be perfectly honest with you. The domestic conditions don't really support that.
00:27:26		Um, you know, and like I said, I think, I think banks can start to work, but they're going to have to outperform, you know, hardware and semis in the US, and that's, that's a bit of a tall ask for the, for the foreseeable future. So, um, can it happen? Sure, it can happen. But we're not in an environment that looks like, you know, 2003 to 2007, where China was exploding to the upside, high single-digit growth rates, and you had demand for copper and energy and zinc and everything that Canada had to offer at that point in time, er, going through the roof. It's, it's not, it's not the environment that's probably likely in, in the next 18 to 24 months.
00:28:04	DP	Kevin, given what Mike's just said, when you think of Canada in that broader asset allocation portfolio perspective, is it a market that's a diversifier, or is it a market that stock selection becomes even that much more important, because you're not, you've got to pick your spots with it? Like, how do you, how do you see that?
00:28:25	KM	Yeah, I think Mike thinks about it the right way. Canada, in my mind, is a reflation trade. It's, it's a hedge to inflation as well, right. If you think about, um, if you own things that get priced in because things are heating back up, energy and materials, right, there's some

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		natural offsets to what you worry about there. So it is, it does have a diversifying impact on you, um, because if you just look at the last couple of years, it is not correlated with the US at all.
00:28:50		And so I'd say once you get to an environment where we're actually going the other way, we're actually stimulating demand from some kind of softening, that's where you'll see the diversification benefits. And if you're wrong on inflation, and it is stickier, and demand is, the demand function for those metals and other things, you're going to want to own it. So it does have that effect.
	DP	Okay, finally, let's, er, spend maybe a couple of minutes on the US election, because we're drawing closer, I think it's always a good time to get a, a check-up on how you're thinking about it and, and the rest of the group, Kevin.
00:29:23	KM	Yeah, I think the election's really the topic I think half, more than half, of the world is going through, and we've had recent ones here with India. It was a surprise outcome, which is the lack of a majority. People thought that was going to be blow-out. You've seen that market get hit pretty hard on the fact that maybe you can't get as much pro-capitalism things done. You're going to have the ECB parliamentary elections coming up next week. You're going to see a move to the hard right, which is going to unwind many of the green policies that have been out there.
00:29:51		And obviously, the big one, er, that's really unknown is going to be the US election, which is in November. Um, that complicates the world for the Fed a bit. I, I do believe if this was not an election year, their hands would be a lot freer to do what they want to do with the data. Think about it this way, if they wanted to pre-empt the softening that they're seeing and cut rates in July, the amount of howling that would go on, um, by the Republican Party, saying you're trying to basically boost the economy for Joe Biden, right.
00:30:23		The later you get into doing this, it's going to be more politically charged. Um, you also know there's no love between Jay Powell and Donald Trump. Um, so, again, if Trump starts to see himself or starts to really pull away, if he does, um, the, the markets have to get themselves into this place that says we probably are going to be looking at a new Fed. Um, so, yeah, the US election, think

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		of it simplistically, er, there are probably be something like 180 million people that are going to go and vote in November, um, that is going to determine the, the basic, very different policies, how the US deals with the world
00:30:58		Off that, this will come down to three to five states, and maybe 50,000 people or votes. I mean, and if it stays close, the big fear, Greg and I, Greg Valliere and I, talked about it this morning, is that you wake up on that Wednesday, which is actually, ironically, the next time the Fed meets after the September meeting, and you may not know for days who the winner is.
00:31:22		I just think that, um, if you thought that the January 6th thing was in the back of people's minds, and waking up with everyone pointing fingers about where this is, it's not going to be pretty things for the market. So I'd say market volatility is going to get higher as we move into the fall and this stays closer. Um, and so, from the Fed standpoint, I don't see, even if the data weakens dramatically, how they can do anything now, as we're getting kind of late in the year here.
00:31:50	JC	Two quick points. On the, on the US election. One, it's not unheard of for the Fed to act closer. It's happened in the past. I agree with Kevin, we live in a different world today, social media and media outlets and the outcry would be enormous, but it has, it has happened, so it's not unheard of that they can do something in September, prior to the election. There'd be a lot of noise, but you can do it. And two, if you look historically, the ramp into the election in, in equity markets is typically a pretty good ramp. On higher volatility, though.
00:32:21	JC	So, for people who are, are a little bit seasick, you may want to stay away or be very cautious, but it typically grinds higher into, into an election. And then at that point, depending on who wins the election, we've, we've got a different, a different market, but high volatility, without question, leading into November.
00:32:38	S4	And, look, the betting odds right now are basically a coin flip, right, and have been for the last, you know, six weeks, right. Biden falls behind, then he catches up, right. Trump takes a lead, then he rolls back over. And so, I mean, look, I think this is going to be, you know, top of mind for us and stuff we're going to be discussing, and it's going to be frustrating, because I think you're going to start to see, you know, you've got lots of baskets that you can follow, that we talk about, that all the, er, big US

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		brokerage houses put out that are like a Trump indicator and a Biden indicator, and, you know, those have been moving, you know, very aggressively in different directions, you know, at different points in time for the last three or four weeks.
00:33:13		And I think it's going to continue to be a frustrating tape. So, er, being diversified, I think, as we head into this and, and maybe having a little bit more cash as you get closer to it, I think is going to be something that is going to be very important.
	KM	Something I'd watch is the end of June, June 27th. I think this is the first time two guys are going to debate to be the president, who have not even been nominated formally by their own parties. They're the presumptive nominees.
00:33:39		One of them, Trump, will turn 78, I believe, this month, later in the month. Um, you're not dealing with two young guys here. If one of them stumbles badly in this, in terms of really shows that weakness, um, this may start to widen out a bit. And that would be actually a relief, I believe, for the markets in the fall, that this wasn't this close. So, four or five points, where you take away this I don't know who's the winner for a few days kind of risk, and you show that there's truly someone that's firmly in the seat. Um, but I do think that's going to be an event that would be something to look at in terms of maybe starting to open this up one way or the other.
00:34:18	JC	I think it's fascinating to think about the US, 400 million people, whatever the number happens to be. It's going to come down, to Kevin's point, to less than 100,000 votes. Probably closer to 50,000 votes on, on a 400 million person base.
	KM	A handful of, a handful of states.
	JC	Crazy. And the impact that has on the whole world, right. I mean, this is not just a region.
	KM	Yeah, very different policies.
	JC	This is not just a regional election.
00:34:41	KM	It has impacts on the Ukraine war. It has impacts on… Probably the only place that they share a vision is the antipathy to China, but even there, er, you know, Trump will have a lot more heavy hand on tariffs, which end up,

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		if you believe it, could be inflationary as well. So there's a whole host of things that are going to be very, very different here.
00:35:00	DP	And on that note, we'll do our best to try and keep our listeners informed on what we're thinking as we get closer to the date. Er, one last question, the most important question of all. Er, a Canadian team is on the cusp of winning the Stanley Cup for the first time in 31 years, so I need some predictions from me. Will the Edmonton Oilers be victorious over the Florida Panthers? Er, John, I'll go to you first.
00:35:27	JC	My heart says Edmonton. My head, says Florida. Er, as a proud Canadian, I'd love to see a Canadian… The Stanley Cup come back to Canada. We haven't seen it since 1993, when the Montreal Canadiens won the last Stanley Cup. But, er, Florida is a pretty good hockey club.
	MA	So you're picking Florida? Just so we're clear here, just so you can't say you picked both.
	JC	It depends. If, if you ask my head [overtalking]. I'm picking Florida.
	MA	Okay. I think Evanston's got the two best players in the series. I don't think there's any question about that. It's coming down to goaltending. I'm picking Edmonton.
00:36:03	DP	Kevin?
	KM	I'll break, I'll break the tie. Edmonton.
	DP	Okay, I'm going to go with Edmonton, too. And I'm going to actually put… I'm going to put in six, and McDavid is going to win the Conn Smythe. There you go. Okay, that ends it, guys. Um, appreciate your time, Mike, er, pleasure having you here. And, er, Kevin and John, I'll see you guys next time.
	MA	Thank you. Thanks.
	KM	Thanks, Dave.
	JC	Thanks, Dave.
00:36:29	DP	For a full transcript of today's episode, visit AGF.com/podcast. And don't forget to subscribe to hear more from us at Apple Podcasts, Spotify, Stitcher, Podcast Addict, and Pocket Casts. This episode of Insight

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