The Empire Club Presents

THE 2017 ANNUAL INVESTMENT OUTLOOK

featuring

IAN RUSSELL, DAVID ROSENBERG, AND JONATHAN LEWIS

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Welcome Address, by Paul Fogolin, Vice President of the Ontario Retirement Communities Association and President of the Empire Club of Canada

I hope you all enjoyed your lunch. From the Fairmont Royal York Hotel in downtown Toronto, welcome, once again, to the 113th season of the Empire Club of Canada. For those of you who are just joining us through our podcast or our

webcast or live on Rogers TV, welcome, to the meeting.

Before I introduce our distinguished speakers today, it gives me great pleasure to introduce our many Head Table Guests. Typically, I encourage the audience to clap as people stand, but because we have so many today, please, refrain from applauding until I have announced all our Head Table Guests.

HEAD TABLE

Distinguished Guest Speakers:

Mr. Jonathan Lewis, Chief Investment Officer, Fiera Capital
Mr. David Rosenberg, Chief Economist, Gluskin Sheff + Associates Inc.
Mr. Ian Russell, President and Chief Executive Officer, Investment Industry Association of Canada

Guests:

Mr. Nick Barisheff, President and Chief Executive Officer, Bullion Management Group Inc.
Ms. Georgina Blanas, Executive Director, Private Capital Markets Association of Canada (PCMA)
Mr. David Brown, Partner, WeirFoulds LLP
Mr. Rory Cattanach, Partner, Wildeboer Dellelce LLP
Ms. Vivien Clubb, President, Providential Pictures Inc.
Mr. Rob Cook, Senior Vice President, Market Development, Canadian Securities Exchange
Mr. Kelsey Gunderson, Co-Head of Equity Products, BMO Capital Markets
Mr. Joe Hinzer, President, Watts, Griffis and McOuat Limited
Ms. Amber Kanwar, Anchor and Reporter, Business News Network; Director, Empire Club of Canada
Mr. Raj Kothari, Managing Partner, PricewaterhouseCoopers LLP, Canada
Ms. Sue Lemon, Chief Executive Officer, CFA Society Toronto
Mr. Don Ludlow, President, Treble Victor Group
Mr. Bill Packham, Chairman, QTrade Financial Group
Mr. Bob Schafer, President, Prospectors & Developers Association of Canada

(PDAC)
Ms. Verity Sylvester, Vice President, Corporate Accounts, CMC+CO; Past President, Empire Club of Canada
Mr. William White, Chairman, IBK Capital Corp.; Director, Empire Club of Canada

Finally, my name, once again, is Paul Fogolin. For my day job, I am the Vice President of the Ontario Retirement Communities Association and the President of the Empire Club of Canada.

Ladies and gentlemen, our Head Table Guests.

I would also like to point out that we have a student table. Some students from Centennial College's business school are with us. Let us give a hand to our student table.

One of my New Year's resolutions this year was to take a more strategic approach to investing, so I hired a new financial advisor, and I asked him, "Where should I invest my money?" He said, "Put it on booze. Where else can you get 40%?" Last joke, I promise.

Whether markets are roaring ahead or they are tumbling off a cliff, good, solid advice is essential. It is what is needed to restrain the euphoria or to soothe the panic attack that can be associated with investing.

Benjamin Franklin once said, "An investment in knowledge pays the best interest." Well, I have good news for everybody here today. We are tremendously privileged to have three very knowledgeable speakers, business leaders who are going to share with us their insights and perspectives on the forces that will shape the investment community in 2017.

Ian Russell is the President and Chief Executive Officer of the Investment Industry Association of Canada, a position he has held since its inauguration in April of 2006. Prior to his appointment at the IIAC, Mr. Russell was SVP of Industry Relations and Representation at the Investment Dealers Association of Canada. He is a frequent commentator in the media, a regular columnist in industry publications and a sought-after speaker on industry issues and developments.

In January of 2014, Mr. Russell was appointed Chair of the International Council of Securities Associations, the first Canadian to do so in 20 years.

Next, we have David Rosenberg. David is the Chief Economist and Strategist at Gluskin Sheff. Prior to joining Gluskin Sheff in the spring of 2009, Mr. Rosenberg was Chief North American Economist at Merrill Lynch in New York for seven years, during which he was consistently ranked in the Institutional Investor All-Star Analyst rankings. Prior to that, he was the Chief Economist and Strategist for Merrill Lynch Canada. Mr. Rosenberg is also the author of *Breakfast with Dave*, a daily distillation of his economic and financial insights.

Last, but certainly not least, we have Jonathan E. Lewis. He is the Chief Investment Officer for Fiera Capital's U.S. Division. He chairs the Fixed Income Invest-

ment Committee and is a member of the Management and Tactical Asset Allocation Committee. Jonathan manages fixed income portfolios for high net worth individuals and institutions and is lead manager for Fiera Capital STRONG Nations Currency Fund. Prior to its acquisition by Fiera Capital, Jonathan was Co-Founder, Chief Investment Officer, and Managing Principal of Samson Capital Advisors LLC. He is also the author of a book called *Spy Capitalism.*

Ladies and gentlemen, please, give a round of applause for our speakers today.

Our format is going to be a little different than when we have multiple speakers. I am going to invite each speaker up, actually, one by one, to address us. It is not because they do not get along, but that is just how we are doing it today.

First, I would like to invite Mr. Ian Russell to the podium.

Ian Russell

Thank you, Paul. Good afternoon, ladies and gentlemen. I am delighted to join you here this afternoon for the Empire Club's Annual Investment Outlook Luncheon. For the past five years, the Investment Industry Association of Canada has polled its CEOs of our 13
2 investment dealer firms. Our aim was to obtain an up-to-date snapshot of executive thinking on economic and financial market trends. These trends have provided the insights

on the outlook for advice, for securities trading and for investment banking in the securities industry. We asked executives to identify the business challenges and the opportunities they foresee in the year ahead. The real questions on everyone's minds are, "Will we simply see just another year of mediocre performance in the industry?" and "Will improving business conditions actually enable the industry and its member firms to break out of the doldrums and move to new highs?"

The 2016 survey was conducted last year from November 3rd to November 25th. The survey coincided with the outcome of the U.S. election, and, as a result, responses to the survey questions were influenced by the positive market tone that emanated from the election outcome; for example, by early December, U.S. stock market indices had moved to record levels and the TSX was approaching an all-time high. Stock market performance, of course, is no guarantee of reality. However, there is a reasonable expectation that economic momentum will strengthen this year if Congress pushes through some of the proposals of President-Elect Trump—notably cuts to personal, corporate and investment taxes as well as increases in infrastructure, spending—and moves into the area of deregulation.

This general optimism, post-U.S. election, may explain why the majority of CEOs in the survey felt less vulnerable to a major external shock that could affect financial markets. Of the survey respondents that did feel vulnerable

to an economic shock, 44% or nearly half those surveyed pointed to a domestic concern, a housing market correction; 33% highlighted geopolitical uncertainty; and only 22% pointed to a sovereign debt crisis as the most likely shock.

Recent economic and financial and political events in Europe certainly suggest that a more cautious optimism is warranted with the possibility of an external shock. The resignation of Italian Prime Minister Renzi, following the Italian constitutional referendum, could open the door for more anti-EU parties to form the next Italian government. This, along with the Brexit negotiations and impending elections in France and Germany, could lead to more volatile and unsettled global markets. And, indeed, another financial crisis could be lurking around the corner.

While executives were less concerned about the impact of a major shock to the market, they nonetheless recognized the industry will continue to undergo massive structural change for the demographic, competitive, regulatory and technological changes sweeping through the industry.

We asked Canadian CEOs, "What are the major trends transforming the investment industry?" And they answered pretty much as we expected: Regulatory changes, intense business competition, the weakness in commodities markets, demographics and technology. Even though these trends are considered significant and may have negative consequences from the needed investment and changes to business models—especially over the shorter run—many

CEOs had taken a positive view on the revenue outlook for this year. The majority of CEOs expect their operating revenue to increase at a faster rate than in 2016. Thirty-five percent project operating revenue to grow roughly in line with 2016. And just 5% of CEOs expect their operating revenue to increase at a slower pace than last year.

The survey then went on to provide greater clarity on the outlook of the revenue components in the industry. The results indicated that CEOs expect the retail business will remain the largest and fastest-growing contributor to industry revenue this year. The large integrated firms, in particular, have invested heavily in their wealth management businesses, providing a wide array of financial products and services to improve earnings and return on equity. The retail business benefits from an ageing population. Demands for services, such as financial and estate planning, will continue to escalate.

Over the next decade, we will see the largest intergenerational wealth transfer in Canadian history, and the amount will grow even larger in subsequent decades.

The investor profile is rapidly changing. The industry will have to adapt to a new generation of investors, the millennials, with their ever-increasing decision-making power and earnings capability. These investors are different from the baby boom investor, both in terms of their trust in the system, the weight given to loyalty, and their independence. Online investing has come to the fore in wealth

management, reflecting technology advances and, indeed, its appeal to millennial investors. Industry executives, however, were split on the value of online investing to their clients.

Nearly half the survey respondents felt online advice was more helpful to smaller clients with limited resources. These clients deal mostly with the larger financial institutions rather than the independent investment dealer firms.

The next question we posed was, "Which best describes your attitude to robo-advisors or online advice?" Approximately two-thirds of the CEOs surveyed felt robo-advisors are likely to take away some business from full-service advisors, in effect, more complementary to the advisory business than substitutional. Forty percent felt that robo-advisors are important to build relationships with younger clients, and another 40% felt robo-advisors are helpful to service smaller clients.

There certainly will be greater customization of business models that cater to different segments of clientele, offering differing mixes of products and services and different types of online advice models—all delivered through advanced mobile client advisor interface and the use of social media. The goal is designed to retain existing and the more sophisticated clients as their needs change and beat the unprecedented demands of millennial investors and, as well, improve the cost-effective delivery of advice to smaller clients.

Now, that we have dealt with the questions related to the wealth management business, which is our largest business component, the survey turned to the weakest revenue contributor. We asked CEOs, "What will be the weakest revenue contributor for your firm in 2017?" And the vast majority said underwriting in debt securities. This response obviously indicates a sea change in bond market sentiment.

Our next question was, "Do you anticipate investment banking activity this year to eclipse 2016-year levels, to remain near 2016 levels, or to fall below 2016 levels?" The majority answered in the positive, saying it would exceed last year's level. This positive view mainly reflects the prospect of increased equity issuance from the growing optimism for a better economy, more buoyant stock markets, a lower cost of capital, and higher energy prices. Merger and acquisitions could also pick up this year with an improving outlook, particularly in the energy sector. Also, cross-border acquisitions could improve, given the prospects of a weaker Canadian dollar and improved corporate tax climate in the United States.

We also asked CEOs what they thought about equity financing prospects in the small cap private and public markets. We asked, "Do you think 2017 will be a strong year in the Canadian private equity market?" As you can see from the slide, the survey results were evenly split with

47% saying yes and 53% saying no. It is a surprising outcome, in fact, in view of the growing importance and the sophistication of Canadian private equity markets in recent years.

Over the last several years, the performance of the public venture markets has been nothing short of dismal. CEOs confirmed, in our survey, that these weak conditions are unlikely to change much this year—not a good sign for mid-sized companies needing capital to expand their businesses.

Let us move on to operating costs. A big factor weighing down dealer performance, in recent years, has been the relentless rise in operating costs. As you see on the chart, the majority of CEOs reported that their operating costs have increased significantly in the past four years. Nearly half the CEOs surveyed anticipate their operating costs will actually increase at a faster rate in 2017, while another 40% expect operating costs to increase at least at the same rate this last year, with only 15% seeing the cost rising at a somewhat lower rate.

The next question was an obvious one: What was the top cost pressure facing their businesses? And the answer was not surprising. Seventy percent said it was compliance costs. The explanation can be traced to the significant ramping up in compliance requirements to meet an expanding securities rule book.

Now, on to technology. New technology applications have been introduced in the last few years to strengthen the client-firm interface, improve account recordkeeping, facilitate trade execution and clearing in settlement, and meet compliance requirements. These services are delivered through in-house systems, through third-party service providers and through our carrying brokers. Sixty-five percent of the firms surveyed expect to spend more on technology in 2017 than 2016, and 35% expect to spend roughly the same.

We asked, "What is the main driver of this technology spend?" We were expecting firms to point to compliance requirements. What was most surprising is that 60% of the firms surveyed identified factors other than compliance. The majority of CEOs indicated that the technology spend was devoted to improvements in firm operating efficiency and defenses against cyber threats. Indeed, 60% said that they expect the technology spend in cyber security, in the next two years, to exceed the past two years. The financial industry is heavily targeted. They have seen 300% more cyber-attacks than other sectors. Our member firms have become increasingly aware of the scope and sophistication of cyber-attacks and the large reputational risks at play. Thirty percent of the firms indicated that the technology spend was mainly related to streamlining processes in the front and back offices of firms. Smaller firms have focused on these technology applications to reduce their costs and to compensate for the lack of scale.

Even with greater optimism about the coming years' prospects, we remain concerned that many small investment dealer firms will not benefit much from the improving outlook. As you know, the industry lost over 60 boutique firms since 2012, and another 50 firms in our industry are losing money—and many of them on a consistent basis. Roughly, one quarter of the small firms in the investment industry will continue to struggle from difficult competitive pressures and a steady escalation in fixed costs from technology and regulatory change. Many of these firms are likely to eventually merge with competing firms or simply close their doors. Our survey confirmed this conclusion. Fifty-five percent of the CEOs surveyed expect the number of firms exiting the industry, over the next two years, will be higher than those exiting in the past two years.

In closing, the IIAC CEO survey struck an optimistic chord this year as executives anticipate a year of stronger economic growth and improving equity market conditions. The optimism partly stems from the expected economic lift from the impending supply side policy changes, including lower taxes and deregulation from the new U.S. administration.

The wealth management business, the most steadily successful business line in the industry, is expected to benefit most from a strong economic and financial outlook. However, institutionally focused firms will also benefit in the coming year from better conditions in equity markets for new offerings, especially, large and mid-sized companies and stepped-up mergers and acquisitions.

We also observed that a core group of smaller firms, a critical mass of some 70–80 firms in the industry, have built strategic niche businesses, have cut operating costs to the bone, and have adapted technology effectively to compete and to compensate for their lack of scale. These firms have met the competitive and cost challenges in today's markets. The optimistic outlook for business conditions this year, from our survey results, will enable these smaller firms to go beyond just surviving a tough market, to actually improving earnings and returns, expanding operations, and contributing to a more competitive and diversified capital market in Canada.

Thank you for your attention.

David Rosenberg

This is normally the moment where everybody heads to the bar, but there is not one, so you will
have to stay seated. Happy New Year, everybody.

We heard a quote from Benjamin Franklin, so I am going to choose mine from the other mental giant, Yogi Berra, who famously said that making predictions is difficult, especially, when it comes to the future. I am going to refrain from embarrassing myself a year from now and giving any numerical predictions, but I will do this, in the name of humility and full disclosure, which is that when I was asked

by Mr. White to address the crowd, back in July, I did not have this presentation. Hillary Clinton was ten points up in the poll, and that was the Fox poll, and I had a different slide deck entirely, but we had been dealt an entirely new deck. And let us face it: We cannot lift up the newspapers or watch the bubbleheads on television and not hear about Donald Trump. Of course, he has made an impact even before January the 20th. My forecast, actually for that day, is going to be extremely windy in Washington, so we had better make sure that hair sticks on pretty well.

Let us get into the story because it is a fascinating one. I think that, in some sense, the markets have given us a bit of a gift because, whereas I would have thought that, initially, if the markets sold off on a Trump victory, I would have said maybe buy the market, but now the markets are rallying so much. There is so much hope and faith and animal spirits quotes priced in that there might be an opportunity here to make some investments that might either ensure against the possibility or probability that he is going to end up overpromising and under-delivering.

We take a look, for example, at what happened in that period before the election. He is going to be a disaster; the polls are showing, post–Comey bombshell, that he could possibly win and the markets go down. And then he does win, and now he is a big miracle worker, and it is just a classic case: When you read economists, strategists, analysts, what they are doing is they are just fitting the narrative

to the market action, and it is still early days.

Ronald Reagan also had a honeymoon period. Although, he had a phenomenal last six years to his presidency for the markets, the first two years were pretty rocky and included a recession, but the markets lay down their bets. This could be possibly fun. Since the election, the S&P 500 was up 6%; the Dow was up 12; the small-cap stocks love the infrastructure story, so they are up more like 16%. It is amazing that pretty well 80% of last year's rally really happened since November the 8th.

What really happened, fundamentally? Nothing, except Donald Trump got elected with the Republican Congress. A lot of people are comparing Trumponomics, Reaganomics. Reagan was the original Let's-Make-America-Great-Again. Of course, Trump borrowed that successfully. Is Reagan, Trump? Is that an appropriate comparison? Reagan comes in: The funds rate is at 18%; Volcker was still raising rates but, ultimately, cut them to the bone. And, of course, that allowed for tremendous price-to-earnings multiple expansion. In fact, when we look fondly at the entire Reagan presidency, the stock market tripled, but profits only went up 50%. The market tripled because of the lower rates from the Fed triggering the P/E multiple expansion off an eight-level. Really, that whole rally was one-part earnings and four-part multiple expansion.

Where is the multiple expansion going to come from this time around, when Donald Trump, unfortunate-

ly, comes into power with the price-to-earnings multiple? Where do you look on a forward trading basis at its highest level in 15 years? That is point number one—the starting point of the multiple.

What about the Fed? Well, the Fed is not cutting rates anymore. They stopped QE in October 2014. They are out of that game, and they have raised rates twice already. They have already indicated they are going to raise rates probably at least three times base case. If they ultimately have to respond to whatever Trump does—which they have not yet because there is so much uncertainty, but the Fed told us in the minutes yesterday, that, "Look! It's classic Newtonian physics: Every action has an equal and opposite reaction. If we get the fiscal reflation—if that happens as planned—rates are going to go up." I will tell you right now that that is more important than deregulation, more important than capital repatriation from the locked-up earnings abroad, more important than corporate tax cuts. There is no president, no fiscal policy, no deregulation anywhere, anytime that influenced the contours of the business cycle as much as the Federal Reserve did. Every recession, every expansion had the Fed's thumbprints all over it. To take a look, historically, you will see that when the Fed hikes interest rates, ten of the 13 times post–World War II, we ended in a recession, that evil word, or we had a soft landing in the mid-'60s, mid-'80s, mid-'90s. But those soft landings happened three years into the expansion, not eight. It is

something that you have to keep in the back of your mind. I am not calling for a recession, but I am saying that when the Fed embarks on a rate-hiking cycle, no matter what else is happening in the economy, stuff starts to happen. It is not going to happen in the next few months, but this will be a 2018 story that the market will start to price in, in the second half of 2017 if the Fed does more than expected. Make no mistake: They have already set their hiking rates three times this year. They probably have some remorse for getting scared in just moving once last year, and if Trump gets everything that he wants, they could hike rates every meeting this year, flatten the yield curve. Then we are into something altogether.

What about this inflation trade? Because all I hear about is inflation now, reflation? Trump is going to engineer inflation. Half of the run up in bond yields in the past couple of months has not been the term premium, which is normalized. It has not been real rates; it has been inflation expectations, interestingly enough. People seem to believe that one man, Donald Trump, one man in the Trump Tower, that one man is going to be able to do what Bernanke, Yellen, Carney, Draghi, Trichet, Kuroda—all these guys that actually control the printing presses—could not do. They believe that what they could not do, Trump will do. Trump will create the inflation. It is very difficult to create inflation from a deflation environment. The textbooks always had that and now we are living at it in reality, just like Japan has

for 20 years.

Creating inflation is not easy. Bernanke told us in December 2013, three years ago, that he was committed to generating inflation. Guess what? Inflation, back then, was 1½% in the U.S. Today, it is 1½%. Not just that, but the only reason why inflation is 1½% is because of education, medical care and imputed rents. But the stuff you can see, touch and feel—the cyclical stuff, furniture, appliances, automotive—all of that stuff is still deflating incredibly.

After the greatest monetary experiment on record, zero rates for eight years, repeated quantitative easings, a tepid expansion, and here we are, and for the past nine months, and 43 of the past 44 months, the core goods CPI, the actual stuff that you can see and touch and feel is still deflating, but somehow that is going to turn around.

Now, take a look at consumer inflation expectations since the Trump election. Well, they are not fooled. We already saw what happened overnight with the reports out of Macy's and Kohl's and Nordstrom and the massive discount the automakers had to put in to move all those cars off the lots. Great number, massive discounting. So, consumers are taking their inflation expectations down. In the NFIB survey—another survey—despite how optimistic everybody is, the grand total of 3% of small businesses actually see inflation as a problem. Yet, half the bond yield run-up has been triggered by bond traders in front of the Bloomberg machines thinking that inflation is going to go up because of Ronald Reagan. Well, I am telling you, as an economist: Impossible. The reason you want to listen to the economist is not just because we are a bunch of fun-loving guys but because they teach us in Economics 101 to draw supply and demand curves—in this case, aggregate demand, aggregate supply—and we focused on the output gap, which is the degree of excess capacity measured as a share of GDP, whether in the U.S., globally, Canada looks the same. When you are below the zero line, you are in excess supply of across the goods, services, labour market, and you are in deflation mode above the zero line inflation mode. We are moving in the right direction—make no mistake—but it will take years and a lot of heavy lifting before we get above the zero line. When we do, guess what? I will be more than happy to change my view and my investor recommendations to reflect a truly, not just reflationary, but inflationary development.

What about that other four-letter-word, 'debt'? What is Trump going to do about this, because this has been the pervasive constraint, globally, including for Canada over the course of the past several years? This is the key constraint. It is not excessive regulation—oh, that dirty ten-letter word! It is not excessive taxation; although, the U.S. corporate tax code should be changed, no doubt about it. I think Trump, to a large extent, is focused on the wrong problems. Excessive debt. That is the problem.

In 2010, the McKinsey people put out this phenom-

enal report, understanding that what we had in our hands was the balance sheet recession that went viral and global; it was not a plain, vanilla recession. And they had ascertained, as they looked at the centuries of data and different countries, that on this sort of recession, a balance sheet recession, to get to the next sustainable stage of growth and inflation without the crutch of central banks, you need to de-lever. You have got to reboot the debt GDP ratio by 25%. We have to reboot that ratio and get it to more comfortable levels, and then we move on. That is an average. Average matches mass dispersion. We know the Japanese experience. But here is the rub. When you take a look at every level of society, globally, households, companies, governments, that debt-to-GDP ratio never corrected the cycle. We are the same today as we were in 2007 at the peak of the last cycle. There is the U.S. There is China. China has got 6.7% growth that is all being fueled by credit. Here is Canada, courtesy of Ontario government and the mortgage market. Of course, CMHC just figured this out. The Bank of Canada's been talking about it for years that the Canadian all-economy debt ratio is 10 percentage points now above Italy. Okay, how proud are we of that?

Then we have Donald Trump coming in because he is not making his fiscal plan revenue neutral—because of course, he is the king of debt. Under his fiscal plan, and even with all the dynamic scoring, which is the multiplier impacts, the Republicans call it, the net debt ratio goes from

77% today to over 100% within the next decade. The reason why fiscal policy worked under Reagan was the starting point on the debt ratio was 30%, not 77%. This is what it looks like for the all-in debt ratio going forward under his policies. We do not ever take this ratio down to levels that will trigger what we need, which is sustainable growth. Do you not see that what I am saying is that his own policies are going to be self-defeating? Because he is going to add more debt to the national balance sheet, and that has been a pervasive constraint.

What about demographics? Look, we talked about central banks; we talked about deflation, not inflation. Demographics—and here is the reality: I wish Trump could make us all younger, and the reality is that he cannot. This is as important as the debt situation is, which is incredibly deflationary. My most conviction call is get the inflation off the brain. Anything going up because of inflation, reflation, take to the side of that trade for the year. We have this unusual situation where, in the past year, the first of the baby boomers turned 70. That $80 million pig in the python in North America—that has driven everything in the past six decades, from capital markets to the economy and politics. Oh, by the way, Donald Trump is an early boomer. The first of the boomers turned 70 this past year, and 1½ million will turn 70 each of the next 15 years, which is why I call it the pig in the python. Understanding the demographics—this is very important, certainly for what we do at Gluskin Sheff,

but also for everything you do, I guess, because I had David Foot as my advisor at the University of Toronto. And he famously said that 70% of everything comes down to demographics. He is not wrong. Why 70 years old is so important is because that is an inflexion point for the first time since you got your first job in your 20s. That is the age where you make most fundamental asset makeshift, where you shift out of equities and into bonds to get the cashflow. That is exactly what happens. This is going to be on a massive quantity for the next several years at a time when there is a dearth of government bonds, globally, giving you any coupon. Now, a lot of that is the deflation. A lot of it is the central banks. The big central banks have bought up what? Twelve trillion dollars' worth of government bonds. They own a third of the government bond market. They are like the Hunt brothers of the 1970s in silver. A situation where, look at this chart: $24 trillion of bonds, globally, trade below 1%. How will you ever…? I mean, you are not going to get skim milk out of that. Seventy-five percent of the world's government bonds trades with a coupon less than 1%, and it is not going to change, because even as the Fed raises short-term rates, Janet Yellen has said we will continue to do what we can to ensure the long-term rates stay low.

Yes, we have had this back to the bond yields, a buying opportunity. This is like the eighth correction in the past decade. It is not the onset of a new bear market in

bonds. Not at all. Our own Stephen Poloz had, I think, one of the best quotes that I have seen in the past few years in the speech he gave, "Living with Lower for Longer," back in September. And he said that some of the forces leading to low interest rates will persist for a long time, so we need to prepare for lower for longer. Individuals need to plan for retirement with different assumptions about longevity, interest rates and growth. I will tell you that whenever I go to see a client of ours or a prospect, I take this page with me because this transcends Donald Trump, and it transcends whether Hillary would have won. This is the fundamental forces of excessive indebtedness and aging demographics. It comes down to how you want to be invested.

In the summertime, the Wall Street Journal had this great editorial, "Brave New World for Bonds and Stocks." Buying equities for income has always been a strong idea. This strategy has simply become turbocharged. But buying bonds for speculative capital gains looks far more dangerous. Traditional assumptions about asset classes are being turned on their heads. I am telling you right here, right now, Donald Trump, despite how great he thinks he is, is not big enough to alter this on a sustainable basis.

When I started in this business in the early 1980s, you bought bonds for the income, and you bought stocks for the capital gains. Today, if you buy bonds, well, hopefully, you are not buying it for the coupon, or if you are buying it for the capital gain, good luck. Imagine the total return

you would need to even get 6%, 7%, 8%. We have got to go back and take those yields to the lowest we had around Brexit last spring and summer.

Here is what I will leave you with: The reason why I am still optimistic on the stock market has not changed; it is because they are trading like bonds. They are trading like bonds, and you do not have to basically buy equities anymore and think, “Oh, I have got to buy bond proxies, like utilities or telecom or staples.” No, no, every sector, the S&P and TSX actually delivers a yield today that is better than we will get in the government bond market. That still holds true right now, even after the correction that we have had in market interest rates, which I think will be temporary. You could buy a GM, if you like; you can buy an Intel; you could buy an IBM, and they are all giving you 3%–4% yields. You do not have to buy utilities, which are too expensive anyways, and still participate in the economy, if that is what you want to do. The major point here that has not changed is that the equity market—and this is a bullish case for the equity market, the most bullish one, especially, considering where bond yields are—is going to continue to be the asset class and the vehicle that will deliver the income that the aging, but not aged boomers are going to need for their portfolio up until such time as we get to that second or bear market in bonds. And that only comes when that output gap turns zero. As I said before, that day will come, but it is years down the road. Hopefully, I will be there to

speak at that point. Anyway, thanks very much.

Jonathan Lewis

Good afternoon, everybody. Well, first, I will just note that when I was originally asked to speak here, over the summer—and my task is to talk with you about the impact of the U.S. election on the markets in the economy—many of my colleagues said, “Oh, that’s a really easy job. Just write your speech about Hillary, put it to bed and show up.” Obviously, things did not quite go that way, so I am here to provide you with historical context.

I believe, if we are best to understand the opportunities and risks immediately before us, the president who is most like Donald Trump is John F. Kennedy. This may seem curious. Trump is a Republican and Kennedy, a Democrat; Trump, the oldest man elected president; Kennedy, the youngest. Yet, there is no doubt in my mind that JFK is our Donald Trump doppelganger. By the way, I just like saying the word ‘doppelganger’—I hope you do not mind. I will say it again, and not just because they both vacation in Palm Beach. Today, I will explain how the history of the new frontier will tell us what we need to know to think critically about the future before us.

First, a disclosure. The views expressed here are my own. I am the Chief Investment Officer of Fiera Capital’s U.S. subsidiary. I hold a Master’s in finance and a Master’s in history. It is my work as a historian that pro-

vides me with the perspective I will offer today. This is a nonpartisan outlook that suggests the months ahead will witness increased geopolitical tensions, increased regional conflicts. We will likely see modestly increasing inflation by tips, even though they are somewhat over-valued right now; rising treasure yields, though a flatter curve; a meaningful correction in stocks; a continued dollar rally that will likely be destabilizing to emerging markets. Okay, that is my opening hint of where I am going. Yet, market volatility and corrections are always good news for opportunistic investors, and getting set up for this scenario could be very profitable.

If the Kennedy roadmap to our future is accurate, after the stock correction, we will likely witness the rebirth of a very compelling and long bull market, one that is built on Military Keynesianism, infrastructure investment and tax cuts. The comparisons between President-Elect Trump and Kennedy are striking. They are important. I will review them with you because they will help you appreciate the case that I am going to make.

In the 1960 election, the Democratic primaries began with the crowded field. There was hope the establishment candidates could stop and derail Kennedy's momentum. The establishment resented the Kennedy upstart and wanted him stopped. Sound familiar? In 2016, the Republican primaries began with a crowded field. The establishment resented the Trump upstart and wanted him stopped.

Kennedy's opponent, Richard Nixon, was Eisenhower's vice president, and he represented the status quo. Hillary Clinton was President Obama's secretary of state, and she represented the status quo. Kennedy wanted to get America moving again. Trump campaigned on the slogan, "Make America Great Again." Both viewed the prior eight years as a period of sluggishness that eroded national greatness. Underestimated by their opponents, both Kennedy and Trump waged unconventional campaigns. Kennedy used a new medium called television to speak directly to the American people in a way never before done by a candidate. Trump used a new medium, social media, specifically Twitter, to speak directly to the American people, and he still is, in a way never before done by a presidential candidate. Kennedy was a disruptor who challenged President Eisenhower's foreign policy, which he viewed as slow-moving and not in keeping with the demands of the times. Trump is a disruptor who challenges President Obama's foreign policy as slow-moving and not in keeping with the demands of the times. Kennedy campaigned as a hawk, slamming Eisenhower for being soft on the Soviets. Eisenhower had sought to reduce U.S. foreign entanglements abroad and to reduce the costs of defense. Trump campaigned as a hawk and slammed Obama and Clinton as soft on terrorism and ISIS, specifically. Like Eisenhower, Obama sought to reduce U.S. foreign entanglements abroad and the cost of defense. Both candidates won and disputed elections. Kenne-

dy won by the thinnest margin ever recorded in U.S. history up to that point in time—49.7 to 49.6 for Nixon, but a big Electoral College victory. It was one of the most polarizing campaigns up to that point. Trump lost the popular vote, but won the Electoral College and one of the most polarizing elections ever.

In 1960, there were charges of fraud. Nixon decided not to contest it. This year, we had an election where there were charges of fraud. Clinton decided not to contest it. Trump, like Kennedy, will enter office without a popular vote mandate, but with a desire to make big changes. Here is where the trouble starts.

Trump, like JFK, wants to take action early in his presidency. Optimists will point out that the Republicans control both the Senate and the House of Representatives and that President Trump should be able to score some big victories. Optimists in Kennedy's day pointed out the same. Despite his narrow victory, the Democrats in Kennedy's day controlled both the Senate and the House, and everyone thought, surely, JFK would be able to score big victories. Sadly, Kennedy's landmark Civil Rights Bill and tax cut legislation did not become law until after his death. They were road blocked by a Congress he controlled. Just as the Democratic Party was fractured in Kennedy's day, stalling the passage of big, bold, historic legislation, so too is the Republican Party fractured today. We saw that just a few days ago.

What actions can President Trump take if Congress frustrates him? The president of the United States has awesome power to act unilaterally in foreign affairs. Kennedy's first foreign policy decisions would, 1) shape the country's poor relationship with Russia for the rest of the decade; 2) lead to a disastrous invasion of the Bay of Pigs just three months after inauguration; 3) would directly lead to Soviet aggression in Berlin and the Cuban Missile Crisis just 18 months later; 4) after stumbling, Kennedy decided, "Asia! That's the right place to take a stand in a promising battlefield called Vietnam."

I will bring a personal perspective to this conversation. One, my history professor at graduate school was McGeorge Bundy, JFK's National Security Advisor; two, he introduced me to Richard Bissell, the architect of the Bay of Pigs Invasion. Bissell was the CIA Deputy Director for covert ops under Eisenhower and Kennedy. I co-authored his memoirs. Three, Bissell introduced me to Walt Rostow, who succeeded Bundy as National Security Advisor. Rostow worked with Johnson on Vietnam policy.

We care about these people today because we will establish in just a moment that JFK's advisors share characteristics in common with Trump's appointments. If character and training is destiny, the parallels between JFK and Trump become informative.

Both Kennedy and Trump were viewed by many as among the least qualified candidates for the presidency.

Neither was troubled by an absence of experience or suitable temperament in key appointments. When Kennedy picked his Secretary of Defense, some reacted with skepticism. His selection, Robert McNamara, had no prior experience in government. Yet, Kennedy wanted to bring a private sector perspective to defense matters, and McNamara, as President of the Ford Motor Corporation, was the leader of one of the largest companies in the world. When JFK asked McNamara to serve as Secretary of Defense, McNamara initially turned down the job and told Kennedy, "Mr. President, it's absurd. I'm not qualified." Kennedy responded, "Look, Bob, I don't think there's any school for presidency either." So, JFK plunged his presidency, along with his new Secretary of Defense, unprepared, but ready to take action. The parallels are clear. When Trump announced his pick for Secretary of State, Rex Tillerson, some reacted with skepticism. Tillerson has no experience in government. His private sector expertise was the characteristic that most attracted Trump to Tillerson. As President of ExxonMobil, Tillerson is the leader of one of the largest companies in the world. Surely, he is a different person than Robert McNamara, but we would all be well advised to consider the similarities.

In the first 100 days of the Kennedy administration, McNamara did not have the perspective or knowledge to properly advise the president and, as JFK plunged the country almost immediately into one foreign policy crisis after another, he would have been better served to have an advisor with experience. Yet, McNamara was not the only JFK appointment with a light résumé, and Tillerson is not the only Trump appointment with a credibility gap in national security expertise.

When President-Elect John Kennedy announced to the world that he had selected McGeorge Bundy to be his National Security Advisor, some were taken aback. Bundy's prior real-world experience was as a professor and a college dean. He never faced a crisis, except in books. Bundy felt Eisenhower's approach was old-fashioned, undermined U.S. strength, and allowed the Russians to take the initiative all over the world. Sound familiar? Bundy did not just want to change policy; he wanted to change how it was made. He began to dismantle Eisenhower's methodical national security apparatus and replace it with something more action oriented—fewer circuit breakers.

JFK's rhetoric and the actions he took in foreign affairs were bold, but unwise. His inexperienced advisors enabled Kennedy's worst qualities. At first, the markets did not react. Stocks surged from Kennedy's election to inauguration. In fact, from a technical perspective, the surge is similar to the surge that has taken place since Trump's election. Though stocks kept moving up in the months immediately following JFK's election, the market became choppy as a sequence of events began to chip away at the initial surge of optimism about the Kennedy presidency. The Bay

of Pigs were followed months later by a disastrous summit with Russia's leader, Nikita Khrushchev. Khrushchev decided JFK was all talk and that he could be intimidated by Russian strength. Just months later, Khrushchev surprised the world by building the Berlin Wall. JFK did nothing. Khrushchev's next move was to begin secretly installing nuclear missiles in Cuba. Spoiler alert: Beware an early meeting between President Trump and Putin. The risks surrounding such a meeting could not be higher.

The stock market peaked in late 1961, months into the Kennedy administration, and began what historians call today, the 'Kennedy Slide'. In December 1961, the P/E of the stock market as measured by the Dow Jones was about 23, one of the highest on record up to that point in time. Optimism had carried valuations to that level, but after a series of foreign policy missteps, the JFK glamour was about to lose its dazzle. As the stock market slide began, Kennedy felt under pressure to show he was in charge, to take action, to have a victory of any kind.

In early 1962, he focused on a new target: The U.S. steel industry. America was an industrial economy and the price of steel a main factor in the pace of economic growth. Kennedy wanted to get the country moving. Low steel prices were stimulative; higher steel prices, economically restrictive. Steel executives wanted to maximize profits for shareholders, and they raised the price of steel that spring. Kennedy's response? Pure Donald Trump. At a news conference, JFK declared, "The American people will find it hard, as I do," said Kennedy, "to accept a situation in which a tiny handful of executives whose pursuit of private power and profit exceeds their sense of public responsibility." He condemned the steel executives for showing such "utter contempt" for the interests of 185 million Americans. JFK began a public campaign to embarrass steel executives and intimidate them into rolling back steel prices. Price increases, he feared, would slow the economy at a time when stocks were slumping.

President-Elect Trump has already had such a moment, and it continues. To make good on his pledge to rebuild American industry, Trump publicly condemned the executives of the heating and cooling behemoth, Carrier. He threatened them; publicly made an example of them; browbeat them to stop moving jobs to Mexico: "Be forewarned," he told corporate America; "Ford has heard the message. Moving jobs will have consequences." While Kennedy declared victory when he was able to force the steel industry to roll back prices, the stock market took notice of this coercive intervention into the economy, and the Kennedy Slide accelerated throughout 1962, a fall of about 25%.

Though foreign policy stumbles may have burst the bubble that began the slump, most of the fall took place after the confrontation with the steel industry. Though the stock market made its bottom just months later, it would

only stage feint recoveries throughout the rest of 1962, slumping again during the Cuban Missile Crisis.

Well, if our story ended here, I fear you will walk out of this room disappointed, in a dark mood to face the clouds of winter. Let me assure you, there is a happy ending. Kennedy may have had his stumbles, but he was a learner who grew from failure. And, in the little life that was left remaining to him in 1963, he was at his best. America was a society on the brink of civil disorder; race relations were at their low; the conflicts between unions and industry, fierce; the fear of industrial job loss was real. Many of these themes are familiar to us today.

While Kennedy's Civil Rights Act is best remembered as his legacy achievement to heal society, it was his bold tax cut initiative, which became law as part of the Revenue Act of 1964, that created a foundation for sustained growth. These tax cuts propelled the great bull market of the '60s that began after JFK faced down the Soviets during the Cuban Missile Crisis. The details behind the story are told in a new book co-authored by Lawrence Kudlow, CNBC commentator and a top Trump advisor. We can be assured that President-Elect Trump knows the story and its happy ending: A buoyant economy, a society unified by economic growth until the tragedy of Vietnam became too much.

What about interest rates? What about the Fed? Here, too, the new frontier shows us the way forward. In

1961, the Kennedy administration and the Fed were worried about a growing trade deficit and a weaker dollar. The dollar was still linked to gold, and foreigners were cashing in their dollars for gold at a fast pace, draining U.S. gold reserves and laying the groundwork for a currency crisis if too much gold left the U.S. An obvious solution to defend the dollar was to raise rates, but this risks slowing the economy. The Fed, encouraged by JFK's team, decided on a bold, untried approach, an experiment called 'Operation Twist'. Rather than actually raise rates, the Fed would sell its holdings of short-term treasuries and pressure short rates higher. This made U.S. rates attractive to overseas investors and stemmed the outflow of gold. Simultaneously, the Fed bought long-term bonds and drove longer rates lower. This helped support and stimulate investment and economic activity.

Could Trump's Fed borrow this page from JFK's playbook? As a result of quantitative easing, the U.S. Federal Reserve is sitting on about $4.5 trillion of U.S. government securities, and a meaningful portion of this is in shorter maturities. It would not be hard to imagine a Fed rebalancing its holdings and in a manner consistent with Operation Twist. If this action occurred, and the dollar strengthened further, it would not be unreasonable to expect an emerging-markets panic, but accelerating global growth cures all and would likely be short-lived under the right set of circumstances.

Well, I have talked long enough. Can President Trump avoid the dark, opening pages of the story, the foreign policy blunders, the heavy-handed interventions in the economy? If he is listening, I hope so, but only time will tell.

Thank you. Thank you for your time.

PF: Well, thank you to all three of our speakers. That was fantastic. I think we can all agree that we have acquired a tremendous amount of that knowledge today. To use David's analogy, my brain feels like that pig in the python right now, so everybody gets to go home and watch reality TV tonight and shut your brains off for a while.

At this point, it is my tremendous pleasure to invite Mr. William White to the podium. As he makes his way to the podium, I just want to mention that this lunch has occurred for over 20 years. It has been happening here every year at the Empire Club, and Bill has been a part of all of them. Bill, I just think it is appropriate to acknowledge your superb service to the Club, so thank you.

Note of Appreciation, by William White, Chairman, IBK Capital Corp.; Director, Empire Club of Canada

Mr. President, distinguished Head Table Guests, fellow members and guests of the Empire Club of Canada, I have the pleasure to express our formal thanks to our three key speakers and their firms: Ian Russell, President of the Investment Industry Association of Canada; David Rosenberg, Chief Economist, Gluskin Sheff + Associates Inc.; Jonathan Lewis, Chief Investment Officer, Fiera Capital.

Gentlemen, what you did today, why you did it and how you did it helps each of us to better understand and embrace the capital markets for this new year. Each of your presentations pointed out how attractive this recent cycle has been, as well as the challenges and opportunities available to each of us in 2017, as investors.

Please, join me now in a warm and special thank you to Ian Russell, David Rosenberg and Jonathan Lewis.

Concluding Remarks, by Paul Fogolin

Thank you, Bill. At this time, I would like to sincerely thank our sponsors for today. As a not-for-profit club, sponsorship is essential to be able to host these lunches.

At first, a special thanks, to the Investment Industry Association of Canada for being our presenting sponsor today and to Fiera Capital for being our event sponsor for today's lunch.

I would also like to give a big thanks to our many gold-level sponsors. I will list them now: IBK Capital Corp., BMO Capital Markets, Wildeboer Dellelce LLP, CFA Society, QTrade, PricewaterhouseCoopers LLP, Bullion Asset Management Group, Prospectors and Developers Association of Canada, WeirFoulds LLP, Canadian Securities Exchange and Watts, Griffis and McOuat Ltd. Finally, I would like to thank IBK Capital Corp., once again, for being our student table sponsor. Let us give a hand to all of our sponsors for their generous support.

I would also like to thank the *National Post* as our print media sponsor, Rogers TV as our local broadcaster, and I would invite you all to check out mediaevents.ca. That is our online event space where we broadcast all of our events at the Empire Club live.

Although we have been around since 1903, we have moved into the 21st century at the Empire Club. You can follow us on Twitter at @Empire_Club. We do not have as many followers as Trump, but we are working on it. And, of course, you can connect through our website, Facebook, LinkedIn, and Instagram as well.

Finally, please, join us again soon. We have a number of exciting lunches coming up, the most exciting will be on January 30th when we will have Mr. David MacNaughton, who is Canada's Ambassador to the United States. He will be coming to address us, and that should be a very interesting lunch.

Thank you so much for coming. Once again, thank you to our speakers and sponsors. This meeting is now adjourned. Have a wonderful afternoon.