

Why Geopolitics May Be the Most Important Focus of Investors in 2024

Speaker Key:

DP David Pett
KM Kevin McCreadie
JC John Christofilos
RC Regina Chi

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00:00:00	DP	Kevin, so you were at the game yesterday. How was it?
	KM	It was on Saturday, was the game.
	DP	Saturday.
	KM	It was cold. I was at the Ravens game. It was a little chilly. Much more than I thought it was going to be.
	DP	So, you're not in a cushy box?
	KM	No.
	DP	You're outside with the people, right?
	KM	I was outside freezing with everybody else. There was a nice 30-mile-an-hour wind blowing too, so it was good. But the Ravens won, so.
	DP	But no shirtless Jason Kelce like there was at the Bills game, right, John?
	JC	And Jason had a couple. Jason had a couple last night.
00:00:31	DP	Yes. He's quite the dude, hey?
	JC	Yes.
	DP	I saw images of him in the tailgate too earlier in the day.
	JC	And he's getting some heat from Philadelphia fans for over-cheering for his brother.

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	DP	It reminds me of the [unclear] thing last year.
	JC	Yes, with his brother with the beers in Calgary.
	DP	That's right. Or two years ago, I guess.
	KM	Can you explain to me why that people throw themselves through tables in parking lots is a...?
	JC	That's a Bills thing. That's a Bills mafia.
	DP	It's a weird thing, hey?
	JC	As they said in one of the chats, I have a few people I'd like to put on that table and jump down on.
00:01:02	DP	John, you've been to a game before, right, like Bills?
	JC	Many Bills games. For 20 some odd years we used to have a gang of us that used to all meet up in the western part of the city and drive over the border and watch games. Every year, once a year we would do the tailgating, we'd do the barbeques, we would do everything. It started with 14 guys.
00:01:26		The last time we did it, it was 140 guys and women that actually all joined us. It was fantastic. It's a lot of fun. The issue is coming home. Crossing that border back into Canada is not easy to do.
	KM	It's probably one of many issues.
	DP	I think the podcast will be out by the time next week's game starts. We've got Baltimore-KC and then we've got San Fran-Detroit.
	JC	Correct.
	DP	You're picking the Ravens, I'm guessing.
	KM	Yes, you're guessing correct.
00:02:00	DP	And then who do you like in the west?
	KM	I'd like to see Detroit. That would be fun.
	DP	It would be fun.

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	JC	Yes, I've got Baltimore for sure in the east. Not for sure. I'd like to see them win. And I think San Fransisco has just got a little too much for Detroit.
	DP	Yes, it'll be interesting if Deebo is playing.
	JC	Yes.
	DP	Okay, I'm going to take San Fran and I'm going to take KC, although I don't like Baltimore or KC, but that's who I'm going with.
	JC	Baltimore has got the best quarterback in the NFL.
	DP	They do.
	JC	The way he plays right now, he's hot.
	DP	He is pretty good. He's so smooth when he takes off, right?
00:02:31	JC	Yes.
	DP	Okay, guys, that's probably enough football talk for one episode. Let's get to the heart of the matter and talk about markets and we can introduce our special guest. If that sounds good with you guys, let's cue the music and let's get into it. Welcome to season five of Inside Perspectives, everyone. It's crazy how time flies.
00:03:00		Kevin McCreadie, AGF's CEO and chief investment officer is back in his usual seat to my left, and to my right is our new co-host, John Christofilos, AGF's chief trading officer. Good to have you aboard, JC. Kevin, let's start with you. Just maybe a run-down of what's been going on over the last three weeks into January.
	KM	I think to think about the first part of the year, you've got to go back to the last two months of last year. You had a pretty good recovery in November and December.
00:03:27		We had a pretty good correction in September, October in all markets and then you have this, depending which market you want to look at, pretty much a mid-teens to higher bounce in everything in November and December. A large chunk of the stuff that had not participated was stuff that had been shorted as people positioned. Then as the market picked up strength, people covered that stuff.

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		You started the year with a pretty good tailwind on markets, so no surprise the first week of the year gave a lot of it back, some softness.
00:04:00		A lot of that was also the fact that rates dropped a lot in the fall and they started to creep back up as you had this debate resurface about where is the Fed going to start cutting rates and that disconnect that we've talked about. Having said that, the last couple of weeks have flipped that. Most markets now are positive. There's a little caution I'd throw out here though. It's somewhat the same trade we saw last year, people rotating into the really big stuff, smaller cap names lagging these last couple of weeks, the average stock lagging the headline index, which is repelled by that really big stuff.
00:04:30		You can call them the magnificent seven or whatever else. Growth in the last couple of weeks just crushing value stocks. The spread in three weeks has growth outperforming value by almost 4%. Again, a little bit of what we saw last year and that's about people crowd into things like that when they feel uncertain and the uncertainty really is here around this tug-of-war between cutting rates to keep things going. Are we getting a soft landing? Is there a recession? I'd say good start, we'll see where we go.
00:05:00	JC	There's two things that I love talking about all day, every day. One is sports and the other is markets. As many of you know, we talk markets all day, every day here. When I look back to the first three weeks of the year, there's probably three or four things that really stand out for me. The first one, as Kevin mentioned, the beginning of the month and year, the choppiness was quite extensive. We'd have great days and then we'd have other days that weren't so great. Ultimately, we went nowhere for the first two and a half, three weeks of the year.
00:05:31		Then late last week we started to see a little bit of a pivot and Kevin talked about it and I want to touch on it. The leadership continuation from November, December is now back again. Whether that's the mag seven or chip stocks or just high-end technology companies, they're doing exceptionally well. That's a bit of a follow-on trade from November, December, a little bit of a pause, and I've got a theory on that. I call it the 23-24-25 pause.

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00:05:59		Profits in 23 are sold early in 24 to pay tax in 25. I think we saw a little bit of that early on in the year and I think maybe that's done with now and maybe will continue on to higher highs. The other thing that I've noticed a lot is the buildup of cash continues to occur. We're now over \$6 trillion of cash in GICs or short-term investment sitting on the sidelines and the big question is, has that come back into the market? How much of that comes back in?
00:06:31		My personal opinion is not all 6 trillion will come back into the market, not even close to 6 trillion. But if 1 trillion comes or 1.5 comes, that's a big number hitting the market. We'll keep a close eye on that. Then finally, this week we're now at all-time highs in the S&P 500. We broke through the number and we're hitting new highs and we had another good day today.
00:06:52		Again, history shows that when you have a 500-day or greater time lapse without a new high, the next six months, this happened five times in history and four of the five times the market ends up higher six months later to an average return of about 7%. It's a good number. We're in a pretty good spot right now. We'll see if we get continuation or if we get some of this cash coming back and how people feel over the next several months will be a big take on how the rest of year will go, from my perspective.
00:07:25	KM	I guess my last comment on this, we've had a lot in terms of recovery. You had a 100 basis point drop in rates. That's clearly helped. You've had this massive, whether it be starting in November or here, push on equity. If you look at where we're pricing in equity, the equity market is saying we're in a soft landing scenario. They're hard to achieve. They're elusive. They actually don't occur very often. Usually what happens is you overtighten and you go too far and you push into a recession. The bond market with that drop in rates is telling you there's a recession. And so, there's a bit of a disconnect. I'd say the last piece is the earning side, which is the other variable here.
00:07:58		We're just getting into the heavy reporting of earnings and earnings might be saying no landing, we just keep rolling. That too would be a tough one to see when you've had this kind of a hike in rates over the last 18 months and that lag effect. There will be some impact on demand at some point.

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	JC	A quick question for Kevin because I think it's important. We sit here in Canada and the feel in Canada feels different than what we're seeing and the reaction in the markets is different than what we're seeing in the US. Just some thoughts, Kevin, maybe around Canada and where the Canadian economy sits relative to the US.
00:08:30	KM	I think a lot of it has to do, we talked a lot about this last year, which is the different impact of higher rates that have on the consumer in different places. In the US, most people have tied into a third-year mortgage at low, low rates. And so, you can raise rates all you want, if you're not running your lifestyle on your credit card, you're not feeling it so much. Canada, we don't have that luxury. We have the refi every three to five years. Higher rates, most people, probably a big chunk are in variable rate instruments, so they're feeling the pain every time the Bank of Canada has gone up.
00:09:01		So, you've seen a weakness or a difference between the two economies. The US had an almost 5% growth in the third quarter. Canada was flat, yet they've both seen wage inflation at 5%. I think the US market feels a little bit more resilient because the consumer is more resilient because they're less suspect to these higher rates. I think that's part of it and I think structurally Canada is obviously still heavily on resources, heavily on banks.
00:09:26		If you think about it, you worry that people with these higher mortgages may be tapped out and you're going to have to see some of these mortgages be reserved for in terms of people's losses and other things. You're probably less cautious or more cautious I should say on the banking system here. I guess the make-up of the two markets is very different in terms of sectors. Very few growth sectors in Canada. Technology and communication services make up 40% or so. They're high 30s in the US. So, it's a combination, I think, John.
	JC	Canada led the hike cycle against the US. Do they lead the cut cycle? Will they cut before the US cuts?
00:10:02	KM	If you look at economic growth, as I said, Canada feels like it's flatlining to negative. One would argue they should be cutting. They have only one mandate here though, which is inflation. As I've said, wage inflation is still running with a

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		five handle on it. It is probably keeping the Bank of Canada probably on pause, so I don't know that they'd cut first. They'd probably run to cutting in my own mind toward the late spring, roughly around the same place.
00:10:28	DP	Okay, our guest is waiting patiently for us. Introducing Regina Chi, our colleague who is a portfolio manager who specialises in emerging markets. One of the things that's been going on as you talk about markets is obviously the geopolitical environment that is, I don't know, maybe more explosive than it's been in decades. We're going to have Regina help us unpackage that a little bit from an emerging markets standpoint. Maybe we should start with the Red Sea attacks because I think that's probably the most pressing issue.
00:11:00		There's obviously other issues going on in the Middle East, but maybe that's the one that's most pressing right now. I guess the first question I have, and John and Kevin, please jump in on this, but Regina, the first question for you is what has you most worried about these attacks as it relates to what you're trying to do on a day-to-day basis?
00:11:21	RC	Hi, everyone. What's worrying is the continued Houthi attacks in the Red Sea, which is actually disrupting trade quite a bit. Why it's important is that the Red Sea in terms of the goods and services that goes through the Red Sea accounts for 40% of total trade between Europe and Asia. In a bigger picture, that's 12% of all global trade. It's very significant. And so, right now the diversion of the Red Sea from the tankers are adding another about two weeks of transportation to get to the end destination.
00:12:03		So, it's a diversion right now. It's causing higher cost to the shippers and the companies that are trading goods between Europe and Asia. But the longer this persists, it's going to have a bigger impact on inflation potentially. One strategist is assuming a plus 60 basis points hit to or increase to inflation the longer the crisis rolls on.
00:12:33		Then what I worry about is not a lot of people are talking about the Panama Canal. We've had a drought there from El Niño. 40% of US trade goes through the Panama Canal. So, you have two major channels that's been disruptive to global trade. We're not near COVID levels, the pandemic levels where freight rates went up quite dramatically, but we are about pre-COVID levels, which is still very high at

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		these rates.
00:13:06	KM	In addition just to the cost of insurance and the cost of shipping which have gone up and the actual travel time, I think the other big worry is if you think about a world that's fighting inflation is the supply chain breakage. That was the thing that gave everyone the shock with COVID. This is different. That supply chain, we had everyone ordering everything at the same time because they had nothing else to do. They were home and they flooded the system with online orders.
00:13:29		You had manufacturing facilities around the world, the people getting sick that were shutting down, so everything backed up. But this is different. Costs haven't gone anywhere near that for shipping rates, but it is this idea that, and John and I talked about it the other day, if you're an auto manufacturer in Europe, you need parts coming from China and all of a sudden 12-day lag, 14-day lag, you have to stop production because you can't put things into a car, the whole thing starts to back up.
00:13:59		I think that's the one you have to keep a closer eye on versus just the pure visible cost of higher shipping containers and insurance right now. You've got to remember, 80% if you were going pre-October 7th, 80% of that travel went through the Suez Canal. That's dropped to 20%. And so, I'd say first tail effect is an immediate increase in the cost. The second tail is this disruption, which I think you'd have to really be concerned about.
00:14:26	RC	The good news is that businesses are much more resilient to these disruptions, especially since we lived through that during the pandemic. And so, we had this very big trend toward friendshoring and nearshoring. I think businesses and companies are better positioned, but I think the case for additional nearshoring is going to accelerate from here.
	JC	From my perspective, Regina and Kevin talked about it very eloquently, I just worry that it's just yet another hotspot. We've got Ukraine-Russia. We've got the Middle East going on.
00:15:00		You've got the threat of China and Taiwan potentially out there as well. There's lots of hotspots around that. If one of them happens to go even further than where we are, it

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		could disrupt markets in a big way.
	KM	Yes, I just saw a survey the other day. 22% of market respondents put geopolitical risk as the number one risk this year. I haven't seen that in decades. The number two was what we've been dealing with, 16% saying higher inflation and what central banks do.
00:15:28		Equally and more again shocking is 16%, so it kind of ranks second as well, was the US presidential election. Geopolitics is going to take I think a bigger stage this year than what central banks do. To John's point, we're dealing with multiple ones now at the same time.
	DP	Yes. Well, we did a webcast, Kevin and I last week, and even the questions coming in from clients and advisors, the majority of them were about geopolitics, which we do this on a monthly basis and we haven't experienced that in, I don't know, two years, right?
00:16:05	KM	Nobody asked about the Fed, which was shocking.
	JC	I guess the year of 23 was the year of central banks around the world. That's what we talked about all day, every day. Is 24 the year of the election and geopolitics? Because what is it, 62% of the entire world's population is going to the polls this year. That's a big number and there's lots of factions out there, left, right, centre, whatever you want to call them, that could change the landscape in many parts of the world as we move through 24.
00:16:35	KM	Think about it this way. You've got 160 million people in the US who are going to vote. Of that population, this will come down to maybe tens of thousands in two states that are going to impact the policies, how the US deals with countries around the world. The ability for even that, we can talk about that later in the year, but that will occupy people in not just this election, but as John said, you're dealing with major democracies around the world facing some of the same issues.
00:17:00	DP	Regina, if we can just, and maybe this is more for me, but also hopefully those listening in. Obviously, there's delays happening because of the Red Sea attacks and because the routes are lengthening. Where are cargo ships having to reroute? Can you just maybe a flavour on that?

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	RC	Yes, sure. All the routes have to go down the Cape of Africa, so that's taking another about two weeks to get across. It's very costly. As a result, the freight rates have been going up. It spiked up about 50, 60% since December.
00:17:36	KM	Again, nowhere near where we got to in COVID, but at that level, still going to be painful. I'd say the other thing, and this was again the secondary effect, when Ukraine and Russia went at it, Europeans basically had to get nat gas from other places and they started bringing a lot more liquefied natural gas from the Middle East. So, it's not just the China and the Europe routes, it's actually importing more natural gas which is now hung up on this 12-day delay too. If you're in Europe, I think you're going to feel this maybe a little differently than the rest of us.
00:18:03	DP	Maybe not back to where we were pandemic with respect to supply chains and delays and rising costs, but when you think about the potential fallout if this continues to go on for a little bit, where's that fallout felt most? Is it just in the inflation readings across the globe or are there certain regions that might get impacted more?
00:18:30	RC	It depends because the companies will absorb the higher cost of shipping, but eventually that will hit the end prices, the end consumer prices, which will be inflationary. The biggest difference now versus during the pandemic is that demand is not as strong. You need to have this pent-up demand. You need to have stimulus cheques. We don't have the stimulus cheques today. So, demand for goods are definitely less than during the pandemic.
00:18:59		And so, as a result, the inflation impact won't be as big, but it might be stickier than what we think they are going to be, especially with the Fed on hold.
	JC	And this whole idea of gauging is hot right now. People are all talking about prices have not come back even though we know supply chains have loosened and goods are flowing. But a lot of manufacturers and a lot of companies have not pushed back or pulled back on pricing.
00:19:26		Trying to push more pricing on because of this little disruption is going to be awful tough. Somebody's got to absorb that. Whether it's the consumer or it's the company, somebody's got to absorb it. Just watch for that over the

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		next little while because to push it to the consumer is going to be awful tough.
	RC	This route is very important for Europe, Asia, and so European companies as well as Asian companies will be hit more on class and profits. But there are also certain frontier countries that are being impacted economically because they're right in the middle of it. It's like Egypt.
00:19:59		Egypt trades quite a bit through the Red Sea, so they're going to be impacted, so they're talking to the IMF to figure out what they're going to do as their game plan. Especially as this crisis continues and I'm not sure how it's going to end.
	KM	Yes, if you think about Egypt, they get massive fees for using the canal. On top of that, they get massive revenues from tourism, which has pretty much slowed dramatically since the events of the Middle East since October 7th. It's not just the October 7th event, but the shipping thing. As everybody goes out around the horn, it's 80% of less flow. It's going to have an impact to that.
00:20:36	DP	And just to be clear, Regina, when people think about emerging markets and the index in particular, they think China, India, the bigger players. But Egypt's part of that and Saudi Arabia is part of that index. Have there been market impacts so far to those particular markets?
00:20:55	RC	Middle East and North Africa make up about 11.5% of the MSCI EM index. I would say largely it's been contained so far. For example, Saudi Arabia, the UAE, Qatar, Kuwait have been doing relatively well. They've been really focusing on growing their non-oil economy. But Egypt is this much smaller Middle East country and they're going to be hit more economically.
	KM	Probably the one that I look at that's kind of a headscratcher to me, if you told me two decades ago we'd have all this going on in the Middle East and you asked me what the jump in oil prices would be, I'd be putting up huge numbers on you.
00:21:34		Oil is flat, it's the story of the year, and the situation is getting hotter, not cooler. Part of that is that people think maybe the world is softening and therefore the demand for oil is coming down, but I think it's under-pricing a real risk. God

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		forbid these guys are successful in taking out a US naval ship and the thing escalates. These guys are funded by the Iranians.
00:22:00		I think it'd be a couple of market events I'd be watching for. If some low-probability event like that occurred, you'd see a pretty good spike I would suspect in oil and probably also a big spike in the VIX and impact of stocks, I would think.
	JC	Yes, I agree with Kevin on the oil price. It's fascinating to me that we're sitting at \$74, \$75 with all this stuff going around us. But I will say, I think there's lots of financial engineering going on in the crude markets as well globally, so we'll watch out for that.
00:22:30		Once that dissipates, we may see a bit of a spike in oil. Regina, I have a quick question that's been on my mind for a while. The US dollar continues to be very resilient, which obviously affects emerging markets. Your thoughts on the US dollar relative to emerging markets and is there any give up there that we could see over the next little while that could help emerging markets going forward?
	RC	I think the relative strength of the US dollar is related to the euro and the yen, not so much emerging market currencies. On a relative interest rate differential and as well as growth, US looks better.
00:23:05		And so, you have US dollar strength and also US dollar tends to be the safe haven whenever you have flare-ups on geopolitical issues.
	DP	Beyond the Red Sea attacks, which obviously is a big issue for what you're doing, Regina, but more broadly for everybody who's invested in global markets because of the repercussions potentially, there was also another event that may not have had maybe the short-term impact that a lot of people thought, but could have longer-term impacts.
00:23:36		That's Taiwan's recent election. Maybe some thoughts on that Regina, and before we do that, maybe just a little bit of preamble as to the new ruling party, the new leader and that relationship that they may have with China proper, if you will.

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00:23:51	RC	Yes, sure. Taiwan is currently run by the DPP, which is the pro-independence party. Pro-independence Taiwan party, anti-Beijing. The incumbent party won again, William Lai, and he won with 40% of the total votes. So, not a landslide victory. He lost the popular vote, but he won. Most importantly, they lost majority in the legislature. This is the first time in 16 years where a party has lost control.
00:24:26		And so, you have a situation that is gridlocked because now you have a third party that only has eight seats in the legislature, but can be the swing party. That would have been a very big election upset if a pro-China, pro-Beijing party had won, but the reality is that 60% of the people voted for the opposition party, so parties that are in favour of the status quo or in favour of closer ties with China.
00:24:58	KM	I think part of that also reflects a fear that we've heard some of the commentary out of Xi, which says basically that Taiwan will eventually be reunified. It's not an if-statement in his mind. Now, he said that this is an issue that can't be passed on to generations, so people say, okay, that means it's got to be dealt with in a timeframe. If you're a mainland Taiwan person hearing that, probably you'd say maybe status quo and maybe let's have nicer relationships because they're going to be outmanned dramatically.
00:25:34		I'd say a second thing is the debate that's going on in the US congress about lack of funding for the Ukraine, delayed funding for Israel. I think if you're Taiwan and thinking that the US was going to come to your side in this move away from I guess globalisation, I think there's a real fear that will the US be there for you. And so, pick which side you're going to be on.
00:25:58		There was a polling day, which was just stunning. In 2021, 45% of the Taiwanese population felt the US was a trustworthy partner. That number has dropped to 34% in a year. That's post Ukraine. I think that says to you the average citizen wants status quo and I think that they're afraid that someone too independent could upset that apple cart.
	JC	A little trader talk here, David, for a second. One of the things that we've talked a lot about with a lot of the dealers around the world is when you look at the Chinese economy and the softness of the Chinese economy over the last

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		number of months and quarters, does Xi need to do something in Taiwan to maintain his powerbase inside of China?
00:26:40		They're struggling and struggling in a big way. Does he have to do something to keep that base? It's just chatter, but it's something that people are talking about on desks around the world these days.
00:26:52	RC	I totally agree with that and I'm of the belief that China is not ready to reunify with Taiwan for one of those reasons is that, is that there are so many domestic issues right now and the Beijing government does not want to have social instability. To go overseas at this point would not be the right move when they have their own domestic problems at home. On top of the fact that if you just take that aside, Beijing is still hoping for a peaceful reunification, especially for the fact that only 40% of the population want to be pro-independent.
00:27:34		The other thing to think about is that there's a corruption crackdown in the Chinese military and they ousted nine generals. That's significant. Most of them came from the rocket force, which controls their nuclear missiles. They're not in a position with the leadership change to do something militarily, in my opinion.
00:27:54		A last part I would mention is that if we have a Trump win, that changes also Beijing's thought process. From what I understand talking to strategists, political strategists, if Trump wins, Beijing will do nothing for four years because of the volatility of Trump. They'll just wait.
	DP	It's a full-time job dealing with him.
	RC	Yes, and they were worried about what happened with North Korea in 2017.
00:28:27	KM	I think dates are important to this. I think you have the new or the former vice president who's going to get seated. It will be in May. So, there's a timeframe between here and there and Taiwan. The second timeframe which people talk about is 2027, which is the 100th year anniversary of the Chinese army. That's out there. That lines up with Regina's thinking. But I think maybe we're thinking about it wrong.
00:28:52		I think if you go back to when Nancy Pelosi visited Taiwan,

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		the last highest-ranking member of congress to do it, the Chinese just willingly breached the 12-mile international zone in that sea and they do it with impunity now. They fly in Taiwanese airspace with really no repercussions. And so, maybe we think about it wrong. Maybe the way to think about it is you start to blockade part of trade. It's not enough to provoke the US to do something. It's not enough to provoke...
00:29:29		People will cry and howl, but that would be a way to have a little bit of show of force without, again, really taking a military stance. But it would have a big impact on economies if you went down that route, even a soft blockade. Do you think oil is important to the Middle East? Guess what sector a blockade of Taiwan would be important to. Technology.
00:29:51	JC	Yes, I was going to touch on that too, Kevin. There's probably one company in the world that's probably more important than any other company in the world these days and that's Taiwan Semi. If you think about them being disrupted for a day, a week, or a month, that's going to disrupt magnitudes of economies, companies, livelihoods. It's as important as any company. It's not Apple. It's actually more important than Apple.
	KM	Again, because they're a supplier to most of the big tech around the world right now.
	JC	They supply the world. Just a small disruption in production, well, we saw it during COVID, right? We couldn't build cars because we needed chips to build those cars and the like. So, they're as important as any company in the world these days.
00:30:33	KM	Yes, 90% of what the magnificent seven needs for their... It comes out of that. I'd say, going back to the thing that Regina said, whoever wins this next election in the US, they'll loathe [?] for a broader trade embrace with China. You're going to see a continued banning of chips, chip equipment. It's not just even big companies named as banned from being invested in in the US because of their ties to the military, it can be whole sectors.
00:31:05		I think that's a thing that won't change. That to me, whether it be Trump or Biden, makes the geopolitical side

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		of China stay with us for some time.
	DP	Maybe I'll ask one more question and then we'll wrap it up for the day. But this comes back to the difference between the Red Sea attacks, which are an event that's happening in real time and having an impact on markets in real time, and what we're talking about with Taiwan and China is we're trying to anticipate what might happen.
00:31:42		I'm curious, Regina, from an investment standpoint and John from a trader standpoint and Kevin from a CIO standpoint, how do you differentiate between the two? How do you cut through? With the Red Sea we know it's happening today and it will inform investment decisions. With Taiwan, China we're trying to anticipate what might happen. How does it influence what you do day to day?
00:32:06	RC	I think a lot of the concerns are efficiently priced in markets. And so, when you look at the flows out of China in 2023, it's been extraordinary. There's very low long-only institutional positioning in China on those fears alone.
00:32:31		And so, is that largely discounted? The stock market is trading at a 16-year low relative to the S&P, the MSCI and itself. You're looking at a multiple that is assuming a lot of the worst-case scenarios. Those are the things that we look at to differentiate between the Red Sea and what's happening with China.
00:33:01	JC	Really quickly, my thought process is the equity markets are as efficient today as they've ever been. From a trading perspective, we look for those dislocations when they occur on a short-term basis. If something occurs in the Red Sea or something is said out of China and we get a dislocation in a particular name that we own, we'll try to take advantage of it. But other than that, we can't really deal with what's going on other than when we see these dislocations.
00:33:27	KM	And I think geopolitics dislocates. You see drops in markets because of events people can't understand, but then they recover. Look at the Ukraine situation. It hasn't gotten any better, but yet the markets have put it on the backburner, sadly. Human lives are being lost every day. The market won't care about that again until there's some next-level event. Somebody uses a compact nuclear weapon, etc. Somebody gets desperate. These have short-term impacts.

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		You and I have talked a lot about this lately and it's something we've been thinking about, is that the short-term event, the market recovers and moves on, but that event may create some longer tail thing that we don't think about.
00:34:02		My favourite example is back to elections. If Gore had won at the Supreme Court instead of Bush, I don't know, does the US ever go into Iran? Or Iraq, I should say, sorry. Does the US ever go in Afghanistan after that and what has evolved of that over 20 odd years? Some of these events will have longer tails into the next 15, 20 years of our policy.
00:34:27	DP	Great conversation, guys, and an ongoing conversation. Regina, as this continues to progress, we'd love to have you back on the show down the road sometime.
	RC	I would love that, thank you.
	DP	But thanks very much for being here. John, Kevin, good to see you again and go 49ers.
	JC	As a Raiders fan, it's just great to watch good football.
	DP	It is. You're absolutely...
	JC	Because I don't see very much of it when I'm watching the Raiders.
	DP	Of all the professional sports, it's the best playoff season of them all. All right, wind it there. Thanks very much, guys.
00:35:00	JC	Thanks, David.
	RC	Thank you.
	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, YouTube Music, Stitcher, Podcast Attic and Pocket Casts. This episode of Inside Perspectives was recorded on January 22nd, 2024, at AGF's offices, Toronto, Ontario, Canada.
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