Inside Perspectives: An AGF Podcast Series

# Finding Global Opportunities at Market Highs

**Speaker Key:**

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| DP | David Pett, Content Editor & Producer, Inside Perspectives: An AGF Podcast Series |
| JC | John Christofilos, Chief Trading Officer, AGF Investments |
| SW | Stephen Way, Head of Global & Emerging Markets Equities, AGF Investmen |

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| 00:00:00 | DP | Welcome to AGF Inside Perspectives. All right, John. |
| 00:00:06 | JC | Hi, David. |
| 00:00:07 | DP | How are you? |
| 00:00:08 | JC | I'm good, thank you, and yourself? |
| 00:00:08 | DP | Good to see you. That was fun. We just had a fire drill, everybody. |
| 00:00:13 | JC | Fun's one way of describing it. Walking down 39 flights of stairs, and it's 110 degrees in the staircase. It's fine. Fun. |
| 00:00:23 | DP | It's good. And we get to go to a muster point. And it's not often you get to go to a place that's called the muster point in our profession. |
| 00:00:28 | JC | I don't even know what muster point is. |
| 00:00:29 | JC | But I went somewhere and they told me to go. |
| 00:00:31 | DP | That's right. |
| 00:00:31 | JC | And I went. |
| 00:00:32 | DP | I think it's probably a secret where our muster point is, but [overtalking]. |
| 00:00:34 | JC | So now that I think about it, it wasn't so much fun, David. |
| 00:00:37 | DP | No. |
| 00:00:37 | JC | I'm not going to use the word fun anymore. |
| 00:00:39 | DP | And it gets me a little flustered before we're doing this. So, if I feel a little out of sorts, or sound a little out of sorts, I apologise. I wanted to actually talk about what's coming up on the weekend, John. We are both participating in a ball hockey tournament in |

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| | | support of the Princess Margaret Hospital and Cancer Research, something that you coordinated. |
| 00:01:01 | JC | I was one of the coordinators, yes. It's a great cause, David, first and foremost. It's going to be a fun day, it's Saturday, October 3rd. We're playing four games, one at eight, sorry, 8:30, 11, 12, and 2:15. It's all for fun. We're all going to have a good time and raise a bunch of money for a great, great cause. So, I'm honoured to be part of the team, and maybe me and you can play on the same line. |
| 00:01:26 | DP | That'd be nice. I'd be honoured. |
| 00:01:28 | JC | I'm a goal scorer, so you got to give me the ball, okay, David? |
| 00:01:31 | DP | I think I'm a goal scorer, so we could be in trouble. |
| 00:01:34 | JC | So now we're in trouble. |
| 00:01:35 | DP | That's right, we might need to add somebody to the line who can feed us the puck. There you go. |
| 00:01:39 | JC | Or the ball. |
| 00:01:39 | DP | Or the ball. Anyways, let's get to our show and our guest today, we have Steve Way with us. He's the Head of Global and Emerging Market Equities at AGF, and a seasoned vet of the profession, so it's a pleasure to have him here. And without further ado, let's get into it. Steve, welcome. |
| 00:02:10 | SW | Hey, thanks, David. Great to be here. |
| 00:02:11 | DP | Thanks for being with us. You heard us bantering about the fire drill and the ball hockey and the whole bit. I'm guessing you don't have any differing views on fire drills. |
| 00:02:22 | SW | No, I was just as excited as John was. But he did a great job. He was following me closely. |
| 00:02:28 | JC | This is important to note that both Steve and I are fire wardens. Steve was brave enough to wear the orange vest. I did not wear the orange vest, but I curtailed a bunch of people off the floor. So, we did a great job. |
| 00:02:40 | SW | It was a team effort. |
| 00:02:41 | JC | It was a team effort. We got everybody out, and everybody's back upstairs now, 39 floors later. It's always a good thing to do every once in a while. It's a team building exercise. |
| 00:02:50 | DP | For those who don't know, Steve rides into work pretty much every day. |

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| 00:02:54 | SW | Yes, every day. |
| 00:02:55 | DP | It doesn't matter the season. |
| 00:02:56 | SW | Until around mid-December, when the snow starts to fly and it's minus two in the morning, I curtail it then. |
| 00:03:02 | DP | There you go. And before we were on air, everybody, and I think we can talk about this. |
| 00:03:08 | SW | I think so. |
| 00:03:09 | DP | John and Steve had a bit of an encounter a number of years ago. So, John, maybe you can just describe it again. |
| 00:03:15 | JC | Sure. Both Steve and I get into the office very early. Steve's usually the first in the office, and I'm a second. |
| 00:03:22 | DP | And by early, we're talking early, early, early. |
| 00:03:25 | JC | 5:30-ish, quarter to six at the latest, for me anyway. Steve's probably here a little bit earlier. But one morning several years ago, when we were in the other building, I parked my car. I don't cycle. I parked my car and started walking toward the building, and I was crossing this little side street called Scott Street, which is right downtown here in Toronto. |
| 00:03:44 | | And as I was crossing blindly, as Steve likes to say, I heard ding-ding, ding-ding, a little bell, as some guy flies by me and misses me by inches. And I went, wow, what a, whatever you want to call this gentleman. He almost hit me. So, didn't think any more of it. I got to the office, and I wanted to talk to Steve and I said, Steve, I almost got killed here today. Some guy almost ran me over with their bike. |
| 00:04:13 | | And Steve, he looks at me in the eye and he says, John, that was me. And I said, okay, well. And he said, you were crossing the street blindly, you had your head down. Which I did, it's 5:30 in the morning, I wasn't paying attention. And several years ago, there was nobody on the streets at 5:30 in the morning, so I thought I'd be safe and almost lost my life. |
| 00:04:32 | SW | It was a scary moment for you. |
| 00:04:33 | JC | A scary moment, Steve. It changed the way I cross the street. I look both ways now. |
| 00:04:40 | DP | Okay, lesson learned. Let's learn a little bit about investing at all-time highs. And we're in that mode again, equity markets continue to flirt with high, despite a litany of potential risks that are out there that we've had pretty much all year. Iran and Ukraine wars, the potential of an AI development slowdown, persistent inflation, |

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| | | rising interest rates. Maybe my first question for both of you is just a simple one. What gives, why are we able to climb this wall of worry, if you will? |
| 00:05:19 | SW | I'll jump off first, and John can jump in, too. I really think it's driven by earnings. Earnings have been phenomenally strong. Not only in the United States, but pretty much in many other countries as well. Returns have been strong this year. The best returns have been seen in Japan and emerging markets. They've really outperformed the United States and Europe. |
| 00:05:38 | | But if you look at the data in Europe, you'll see that earnings there, in terms of second quarter earnings, about 87% of companies beat expectations in the second quarter. You haven't seen that kind of an earnings beat for I think five years. And it was relatively broad based. Obviously, driven by IT and technology. |
| 00:05:56 | | But the AI capital spending that's taking place, is allowing economic growth to be maintained. But also, it's spreading into other sectors of the economy, and you're seeing that in the earnings and the revenue growth of these companies. So, that's clearly been driving the United States. But also, in Japan. Japan had, again, some of the best earnings beats that we've seen there in probably five or six years. |
| 00:06:19 | | And then just economic resilience. I'll say that as well. As we entered the year, there was some concern about the economies, particularly with the war. But because of this AI CapEx spending in the United States, economic growth forecasts have been steady. You haven't seen any big downward revisions. And in Japan, similar, you haven't seen any downward revisions, in part because of AI spending. |
| 00:06:39 | JC | I totally agree with Steve. I've been talking about this all year. There's a direct correlation between earnings and the stock market going higher. When companies are doing well, the stock market does well. So, we're seeing a lot of that. The other interesting dynamic off the desk is, we're starting to see flows really start to accelerate in some of these parts of the world that Steve… Into Europe, earlier this year, and now into Asia. |
| 00:07:04 | | From my perspective as a trader, it's nice to see the diversification of flows, so it's not focused on one market or one country. That's a positive as well. As long as we continue to see that, David, then I think the market will continue to be resilient until it's not. Because we all know, and we've all been around long enough, that at some point the market will give a little back, and then we'll have to readjust our thinking and maybe reinvest differently than we are today. |

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| 00:07:29 | DP | And on that front, John, I'm getting a little bit philosophical about all-time highs as a concept, if you will, an investment concept. Maybe the next obvious question is, what comes next? But before you answer that, let me just rattle off a few stats here for you. The first one here is from JP Morgan Asset Management. It's a 2024 report, so a little dated, but I think still proves out a point here. |
| 00:07:58 | | It says that the S&P 500 index has achieved an all-time high on roughly 7% of trading days since 1950. Rough calculation, I think that's about 1,300 days or something like that. Of these highs, almost a third became new market floors, which are defined as being all-time highs from which the market never fell more than 5%. In other words, 33% of the time, the S&P 500 barely pulled back from their highs before rebounding. That's the first stat. |
| 00:08:31 | | The next stat I want to mention to you is, and this is a more recent report from RBC Global Asset Management, said that from 1950 to 2025, so the same time frame, the S&P 500 index was 10% lower one year after hitting an all-time high only 9% of the time. |
| 00:08:50 | | And this percentage falls to 3% when you lengthen the timeframe to three years. And drops to zero, five years removed from an all-time high. So, you've got that backdrop. And yet there's always this degree of angst that people feel when you hit all-time highs, that it's a terrible time to invest. |
| 00:09:10 | | The same report also notes that for investors that only invested in the S&P 500 at all-time highs between 1950 and 2025, the one, three, and five-year returns would be less than the average return for the index, albeit only by a small percentage. So, you do lose a little bit from investing just at all-time highs, but it's not significant. Usually less than a percentage point. |
| 00:09:36 | | So, that backdrop you've got, if you keep going, you're probably going to be okay. But yet there's still that little angst. I'm just curious, Steve, from your experience when you get to this level, what's the mindset? How do you feel about all-time highs and what you need to be doing when you get to this level? |
| 00:09:59 | SW | You always have to be looking at the stocks you own and making sure you're comfortable with valuations. And there're always opportunities to trim or add, to move the portfolio around. There’re always opportunities somewhere in the market, even if the market's at all-time highs. |
| 00:10:12 | | So, there're always opportunities at different sectors. AI losers, there’re a bunch of AI losers that the markets really sold off recently, and maybe there's opportunity there. Just because the market’s at all-time highs doesn't mean there're not opportunities. |

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| 00:10:25 | | But I would broaden the answer to say for a retail investor, if you're trying to time the market, you're not going to be successful. My mandate, Global Equity, was launched in 1995. Data shows that if you had invested $10,000 in the MSCI at that time, it has grown significantly over that period of time. If you missed the ten best days, your returns would be cut by almost in half. |
| 00:10:52 | | Missing the ten best days over a substantially long time period really can impact your returns. So, the message is to stay invested, invest regularly, invest early in your life. Dollar cost averaging, I think, is a great way to do it. And have an appropriate time horizon when you're making your investments. |
| 00:11:12 | | If you're investing for retirement, that's a 30-year time horizon for a 30-year-old. If you're saving for a house maybe have a shorter time frame. Maybe don't do 100% in equities. |
| 00:11:23 | JC | I'm going to say something that's very obvious. I prefer all-time highs than all-time lows. You asked the question right off the top before you talked to us about all those numbers, what's next? Typically, when you hit all-time highs, the next move is more all-time highs. And it continues to compound until it does it again. |
| 00:11:42 | | We know how markets operate, but I would rather be at this starting point if I was starting today, than back in 2020 or '97 or 2000 or 2008, when we hit some really deep, deep lows. So, I'm encouraged by what I see in the market, David. I think we still have some legs here, again, as a trader. |
| 00:12:04 | | But to Steve's point, I think it's really important, we like to pick stocks. That's what we do for a living. And there's always an opportunity somewhere. Jim Cramer says, and I listen to Jim on CNBC all the time, there's a bull market somewhere. Whether you're at all-time highs or all-time lows, there're opportunities in the market. You just need to do a little bit more homework. And that's what we do here at AGF with our analysts and our PMs and the like. |
| 00:12:25 | | So, there're always opportunities. But I would rather be where we are today than talking about all-time lows, or we're in a trough or whatever the case may be. So, I think we're in a pretty good spot right now. |
| 00:12:35 | DP | Just on that front, you've obviously gone through a lot of all-time highs in your careers. Not to put a number on how long you guys have been doing this. And you talked a little bit about, there're always opportunities, but is there something in particular that you've learned over the years about investing in all-time highs? |

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| 00:12:54 | | I'm just wondering, does the backdrop matter in terms of what has driven those all-time highs? An asset bubble versus, you mentioned the earnings resilience. It seems like there're two different things here that you have to work with. |
| 00:13:09 | JC | I've learned a lot in the number of years I've been in this industry. Two things that I've learned more than anything, and I've learned from my mistakes, and I talk about this all the time when I'm on the road. One, the market never goes to zero. Even though it feels some days, in some weeks, in some quarters that it's going to go to zero. It doesn't go to zero. |
| 00:13:25 | | And the second thing I will say that I've learned, the market always recovers. If you look at an S&P 500 chart from 1900 through to today, it goes from the bottom left to the top, right. To Steve's point earlier, you can't time that. So, staying invested and looking for dislocations in the market and continuing to invest during those dislocations is always the best strategy. |
| 00:13:49 | | So, staying invested, invest regularly, and you're going to be fine. As soon as you start to time the market, you're going to get yourself in a little bit of trouble. Because two things happen. One, if the market sells off and you're trying to time this thing, you never get back in at the right time, or you never believe the rally, and then you miss a big part of the rally on the bounce back to Steve's point earlier. |
| 00:14:11 | | So, staying invested, dollar cost averaging and not trying to time it, is bar none the best strategy. |
| 00:14:18 | DP | And then, Steve, just from your perspective, is there some nuance to this when you think of an all-time high? You really do have to dig into what's been driving that rally? |
| 00:14:31 | SW | You can look at things like, is it based on earnings growth in revisions as I just talked about, and how the duration's a sustainability of that? Now, if I go back to the early 2000s, the tech boom and bust, there was a lot of hype in the market at that point in time, and it was driven by more liquidity and speculation. But we have tools we can use to understand that. It created actually fantastic opportunities for us to find stocks that had been completely overlooked. |
| 00:15:01 | | You have to look at what's driving the market, is an important consideration. And if it's speculative, that might be a reason to pull back and look at other areas. But I've always stayed fully invested because, again, I would be a horrible market timer if I tried to do it. |
| 00:15:17 | JC | David, two things really quickly I think that are important. From a market structure perspective, we've noticed two very big themes |

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| | | in the last five or six years. One, that we're at all-time highs for households invested in the stock market. I think the number's 58%. Which doesn't sound like a lot, but that's a lot. And number two, the retail cohort are more invested today than they've ever been. |
| 00:15:40 | | When we look at volumes on a day-to-day basis, the retail cohort is a large chunk of what we see every single day. As long as they stay in the market and don't go back to playing video games in their basement, I think that is a nice floor or support mechanism for the market. |
| 00:15:57 | | But having more people invested and making money and building wealth. And then having that retail cohort who are starting out as Steve said, early in their lives, investing in trading and trying to do better for themselves, are two big things that we didn't have five years ago or ten years ago. They're much larger cohorts than they ever were. |
| 00:16:15 | DP | And presumably the more they participate, John, the more comfortable they get with the idea that markets ebb and flow. Whereas maybe 30 years ago, you get a bit of a correction and pullback. And there's a tendency for them to back right out because it's a foreign concept to them. |
| 00:16:33 | JC | Part of that reasoning is there's so much information out there, whether online or through the dealers around the world. These retail investors, have more information today than they ever had. Now, that could also backfire on you, if you overthink something. But I would rather have more information than less information. So, they have more information today. |
| 00:16:55 | | I tell the story all the time, I remember my father buying the Toronto Star and sitting at the kitchen table in the evening, the evening edition, to check and see how their stocks did. As we all know today, it's instantaneous. They have an immediate satisfaction or an immediate dissatisfaction in the market, and they continue to stay invested. So, as long as they stay in, I think we've got a nice floor mechanism there to keep the market at least resilient. |
| 00:17:22 | SW | But I would jump in and just add that it really does highlight the importance of advice as well. Because a good financial advisor can help you navigate some of these volatile markets as well, and keep you invested if there's a correction. |
| 00:17:36 | | So, I think people who are really trying to build long-term wealth will be well served to deal with an advisor who can help guide them through those more difficult times. |

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| 00:17:44 | JC | Because they will come. |
| 00:17:45 | SW | Yes, for sure, they're going to come. |
| 00:17:46 | JC | Sure it does. And I think we've seen this stat somewhere, right? Somebody that works with an advisor, their long-term return profile is several hundred basis points higher than those who are trying to do it themselves. To Steve's point, working with an advisor makes a difference. |
| 00:18:01 | DP | Yes, I think just being able to talk through things a little bit with somebody, I think it's certainly helpful. |
| 00:18:07 | SW | To also have a plan, right? You're saving for something. And where are you going against that plan, and what do you have to do next? |
| 00:18:15 | DP | Absolutely. Maybe we'll just end the conversation with some talk about opportunities. You talked about there're always opportunities, even at all-time highs. A colleague of ours mentioned to me yesterday that this is really one of the few times where we're at all-time highs, and yet the breadth of returns has been fairly narrow. Which suggests there are lots of opportunities where stocks are not at all-time highs. |
| 00:18:43 | | I just wonder if that's what you're seeing as well, Steve, where, yes, we're at all-time highs from a market perspective, but there're lots of things out there that maybe aren't trading at valuations, that are scary at this point. |
| 00:19:01 | SW | If you look at it from a country perspective, we've been positive on Japan as you know, David, for the last little while. And Japan's been really strong, up 20% this year. Better than the United States. So, we continue to see opportunities there. The economy is normalising. Inflation is coming back. That's a good thing for Japan. That means real wages are starting to rise again as well. |
| 00:19:19 | | So, we continue to favour Japan. There's a lot of corporate restructuring going on there. Also out of Japan, we see opportunities in the United Kingdom. That market has been left for dead. The UK economy isn't doing that great. But something like 70% of the index makes its revenues from outside the UK. It's a very global index. We can find really high-quality global companies in the UK that are trading at significant discounts and with good dividend yields. |
| 00:19:47 | | Those would be two I would highlight. And then the last thing I would say, selectively in emerging markets, I think there're some opportunities. |

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| 00:19:52 | JC | And Dave, I'd be remiss if I didn't mention Canada. From a flow perspective on the desk, we're seeing more interest in Canada over the last number of months than we did for many, probably a couple of years anyways. So, that's always a positive. To Steve's point, there's choice. There's lots of choice out there. It doesn't have to be one market or two markets. Investors have the ability to be in ten markets if they want, 20 markets. There're opportunities everywhere. |
| 00:20:16 | DP | And maybe there's a lesson, we've talked about at the start, there's lots of potential risks that are out there. And we talk a little bit about this. So, there are risks, but until they start to impact on earnings, there's a little bit of noise in there. And so, trying to differentiate the noise from the signal a little bit, right? |
| 00:20:36 | JC | Absolutely. That's what Steve and the analyst team have to do, right? There's lots of noise out there. We see it all day, every day. But if you can separate the noise from the signal, that's how you become a successful investor. |
| 00:20:47 | SW | Look at the politics the last 12 months. Who would have thought that we'd be at all-time highs? |
| 00:20:52 | JC | Let me give you an example on one of these signals to noise. I get this question a lot about tariffs. How are tariffs affecting the market? I have the same answer now. They're not. The market has gotten through that stage. So, if you hear any noise on tariffs, it's not going to affect the market as much as it did last year when the market was really trying to adjust to the global tariffs. |
| 00:21:17 | | Whether you like them or don't like them, that's not the point. The point is the market itself has now gotten through that. And unfortunately, the market's also gotten through the Russia-Ukraine war. For as bad as it is over there, the market's adjusted to it. |
| 00:21:31 | | So, if you're worried about those things, from an investor's perspective, I don't think you need to be as much anymore. There're other things you need to worry about, for sure, but not tariffs and not the Russia-Ukraine war. Even though they're both not good for the general population, it's not affecting markets these days. |
| 00:21:48 | DP | I think we can wrap up there, guys. Again, appreciate you being here, Steve. John, as always, a pleasure. Let's go get them on the weekend. |
| 00:21:57 | JC | That's right. |
| 00:21:58 | DP | And I hope you guys don't have any more encounters on the street with bicycles and heads down. |

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| 00:22:05 | JC | I've learned my lesson. |
| 00:22:06 | DP | There you go. All right, and with that, we're out. |
| 00:22:17 | | Thanks, everyone, for listening. 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. |
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