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# While the short term is uncertain, long-term prospects are still positive

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**Consumers embrace technology**

Despite bouts of volatility in the equity markets, investor confidence remains high and their love for technology companies continues. I love technology companies too, as a consumer. When I shop on Amazon, I am amazed by its service and prices. However, as an investor, it is difficult to justify owning a significant position of Amazon at a price that is equivalent to 250 times annual earnings. An investor will only break even if: 1) the opportunity cost of their money remains low, 2) the investor lives longer than 250 years, or 3) Amazon grows its earnings exponentially. Since central banks are raising interest rates, the opportunity cost of investing in Amazon instead of fixed income is rising. It would be amazing if one could live to 250 to earn Amazon's annual earnings 250 times. Since no one has done it before, the odds are probably lower than winning the lottery. It is also doubtful that Amazon's earnings will grow substantially, as they have not been able to do so in the history of the company, despite selling more every day. Consumers love Amazon for its convenience and low prices, which is why the company has not been able to turn sales into large profits.

**Canadian and international outlook**

The Multi-Asset Management team recently modelled future returns of major asset classes such as Canadian bonds, global bonds, Canadian equity, U.S. equity, international equity and emerging markets equity. The good news is every asset class is expected to earn positive returns. In developed markets, the U.S. ranks poorly as valuations are higher and the cost to hedge the U.S. dollar is rising. We are currently hedging about 60-70% of our U.S. dollar exposure. We have compelling reasons to believe the U.S. dollar will depreciate, so hedging, albeit with a cost, is expected to yield better results than not hedging. The U.S. government is going to run a large deficit even as the economy grows, adding to the already mega-sized debt. Borrowing costs are rising as investors re-evaluate the creditworthiness of the U.S. government. Since rising rates on larger debt would only mean a larger burden, the U.S. government will need to find a way to offset higher costs; in my opinion, a weaker dollar appears to be the only option. Canada and emerging countries are more attractive on a relative basis. A lot of our readers will probably be surprised to hear about our expectation in Canada given the sentiment is so low. Investing is not about what we want now, it is about what others will want in the future. With compelling valuations and an economy supported by hard-working, educated individuals, Canadian companies are competitive in the global framework.

What we haven't told you, before you get too excited about the positive future returns, is that: 1) short-term returns can deviate significantly from the long-term average that our study was based on, and 2) the time horizon for those returns to be realized is seven to 10 years on equity. Our risk management strategy is applied to reduce short-term volatility without sacrificing too much of the long-term upside. We believe this is a time not to be overly pessimistic, but also not overly aggressive.

*Combined top 15 equity holdings as of April 30, 2018 of the Evolution 40i60e Standard portfolio with Alpha-style exposure:*

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|---|---|---|
| 1. Canadian Natural Resources | 6. Toronto-Dominion Bank | 11. Bank of Nova Scotia |
| 2. SNC-Lavalin | 7. Franco-Nevada | 12. Industrial Alliance |
| 3. Atco | 8. AltaGas | 13. Microsoft |
| 4. Canadian Pacific Railway | 9. Athene Holding | 14. Empire |
| 5. Suncor Energy | 10. E-L Financial | 15. Fortis |