Transcript

Better conversations. Better outcomes.

Episode 66 – More room to run: A market outlook from the BMO Global Investment Forum

Paul Niven - The world has changed. We now have capitalism without capital. Many businesses run capital-light business models and that enables scalable production to almost an infinite level without rising inflationary pressures.

Steven Bell - The world economy is in reasonably good shape and we expect stock markets to reflect this. Unemployment is falling at the world level; it's got further to fall. And inflation, well, that's really in Goldilocks territory -- not too hot so that we have inflation below 2% in most countries, but not too cold either, which would be deflation. So inflation is really in very good shape. Yes, there are clouds on the horizon. The Fed is raising rates, as our other central banks, and there are fears of a trade war.

Ben Jones - Welcome to *Better conversations. Better outcomes*. presented by BMO Global Asset Management. I'm Ben Jones.

Emily Larsen - And I'm Emily Larsen. In each episode, we'll explore topics relevant to today's trusted financial advisors, interviewing experts and investigating the world of wealth advising from every angle. We'll also provide you with actionable ideas designed to improve outcomes for advisors and their clients.

Ben Jones - To access the resources we discuss in today's show, or just to learn more about our guests, visit bmogam.com/betterconversations. Again, that's bmogam.com/betterconversations. Thanks for joining us.

Emily Larsen - Before we get started, one quick request. If you have enjoyed the show and found them of value, please take a moment to leave us a rating or review on iTunes. It would really mean a lot to us.

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Emily Larsen - At the top of the show, you heard perspectives from Paul Niven and Steven Bell, two of the many participants in this year's Global Investment Forum. Each year BMO gathers our investment teams and strategists from across the globe for two days of speakers briefings and discussions on the major themes that will affect the market on a three to five-year basis.

Ben Jones - If this sounds familiar to you, that's because it is. We've covered the event from previous years in both episode 17 and 42. An output from the forum also includes a companion five-year outlook report which coalesces the entire group's conclusions into one base-case scenario where they lay out the coming five years for global markets.

Emily Larsen - This year we sat down again with Jon Adams in Chicago. Jon is a senior investment strategist and portfolio manager with BMO Global Asset Management. We discussed this year's projections, as well as assess the accuracy of the previous year's outlook.

Ben Jones - Can we discuss a little bit about last year? You had kind of a high probability, base-case scenario of “steady as she goes.” You gave it a 60% weighting. How has this played out?

Jon Adams - I would actually say it played out very well. We were concerned last year that we were a bit defensive with our overall view. That was kind of the consensus outlook was that we kind of have more room to run, steady as she goes, growth would be solid with inflation relatively low. But that really has played out and our bias was supposed to be overweight stocks relative to bonds, and that that's done very well over the last year. I think another interesting point was that we summarized the last five years. This is the fifth year of our investment forums. So we really went back and said what do we get right, what do we get wrong, what were our best and worst calls on that five-year period? What themes came up over and over again, like protectionism for example, and what were we right on and what were wrong on.

Ben Jones - And so, maybe you could share with us what were you wrong on?

Jon Adams - Sure, I would say what were we wrong on last year was the expectation that European growth and emerging market growth would really continue at very strong levels. So we had this idea of global synchronized growth last year. We got tired of hearing ourselves talk about global synchronized growth, but that really was a situation that we were in at the end of 2017. Europe was growing more strongly than the U.S., if you recall at that point. We expected that to continue to some degree and really we've seen a lot more decoupling, I would say, this year with the U.S. taking the lead, especially due to the fiscal stimulus that was enacted late last year. That was one view that we probably got wrong there.

Ben Jones - So the Global Investment Forum brings together BMO's investment teams from around the globe, as well as a lot of different outside thought leaders, experts in their industries --

Jon Adams - Right.

Ben Jones - And you guys discuss kind of the key themes impacting markets and portfolios across the globe. What were some of the key topics from this year's discussion?

Jon Adams - Sure, I would say key topics were I would say number one - trade, what’s really top of mind for most investors right now. So we had an expert speaker from Goldman talking to us about trade and the outlook there. I would say also technology, artificial intelligence, machine learning was really a key theme overall from the forum. And then finally, the future of the Euro Zone.

Ben Jones - Coming up we will discuss the best-case scenario and how advisors should position their portfolios for it. But first, we're going to dive into each of these three key areas that Jon laid out -- trade, technology and the Euro Zone. Now, I asked Jon about the general sentiment among the participants of the forum relative to the topic of trade.

Jon Adams - On the topic of trade, I would say we have a more benign view overall than the market consensus. There are many that think we're going to experience a global recession that's trade induced, we have a more benign view. We think that cooler heads will prevail in the more medium term. You have seen the U.S., the Trump administration, take some strides toward that end, at improving trade relations, if you look at what's happening with the Euro Zone recently -- with South Korea, with the U.S.M.C.A. -- we have made some strides there, but really the fundamental tension is U.S. versus China. You've seen a lot of tariffs announced by the U.S. China's retaliated with their own tariffs. We think that'll continue to play out in the short-to-medium term. But it's very clear that China's experiencing significant pain from these trade discussions -- the U.S. to some degree as well. But the U.S. is in a much stronger position having growth above 4% as we speak right now. A couple of 1/10ths in GDP growth hit isn't really going to impact things too much in the U.S.

Ben Jones - And so, what is it that gives your team confidence to believe that this more benign view will play out?

Jon Adams - I would say it's ultimately in the best interest of both China and the U.S. to ultimately come to an agreement. The longer this goes on, the more incentive companies have to move production and manufacturing out of China to countries like Vietnam, Indonesia, for example. China doesn't want to see that happening and also the U.S. has every incentive to come to an agreement eventually as well. Growth is very strong right now, we know it's going to come off to some degree in the next couple of years and trade will have much more of an impact overall.

Ben Jones - How did the forum discuss the impact of trade wars on the overall economics and ultimately how does that translate into, maybe, portfolios?

Ben Jones - Sure. First point I would make is that trade has really supported assets like the U.S. Dollar. On a year-to-date basis the dollar has been one of the really clear winners from this overhang of trade. We talked a lot about relative differential, kind of who's winning the trade war so to speak. If you look at Chinese companies with high exposure to U.S. sales, they significantly underperformed their counterparts U.S. firms that have high exposure to China. I think that's one metric you could look at and say the U.S. appears to be winning the trade wars to some degree from that perspective. Also, the strength of the U.S. Dollar on a year-to-date basis would suggest that the U.S. has kind of been winning that trade war overall. We talked a lot about the potential overhang the uncertainty that it's caused in markets, but I think there is some surprise that trade hasn't impacted equity markets even more. You've seen U.S. equities, as we speak, up almost 10% this year. We've had this trade headwind almost the entire year. It hasn't really impacted those stocks to a large extent. You've seen it much more in Chinese tech stocks, for example, than you have overall in U.S. equities.

Emily Larsen - Next, Jon and Ben discuss how technology and artificial intelligence will continue to affect the markets in the next few years.

Ben Jones - Everybody likes to talk about AI and big data and how all of our jobs will be outsourced to a computer one day.

Jon Adams - Right, right.

Ben Jones - But tell me a little bit about some of the speakers and their views on what's surely occurring in the marketplace and how that affects portfolios.

Jon Adams - Sure, that's a theme that's come up multiple times throughout these forums. We talked about automation maybe three years ago, AI for example and the probability that AI and computers might take up to 40% of jobs over the next 10 years. So it's a theme that has come up. It's always very interesting. I would say the speakers that we had this year on automation and machine learning, I would say were a bit more cautious and saying -- especially with respect to the financial industry -- that data series are not stationary in financial markets, and kind of be careful with your back test. Every back test always looks very good. You put it in practice and it's kind of a different story beyond that. So our speakers were saying the potential is definitely there, but still early stages, I would say, as far as machine learning, especially applied to finance. That we're maybe five years away from really seeing an impact there, but ultimately our view has been that you are going to need humans as well. We don't think that the robots, the machines, are going to take over, take all the jobs eventually. Those predictions in the past have been proven wrong pretty significantly.

Ben Jones - It just creates different jobs.

Jon Adams - Exactly. Right. And the chance to work along with machines instead of actually against those machines.

Ben Jones - Now one of the things that I really kind of keyed in on from the report this year was the fact that you noted that while AI big data might destroy jobs, strong balance sheets are actually leading employers globally to creating a lot more jobs than they ever have. And so, how does that impact your thinking about both the future investment market, job market, and how you'd impact portfolios as a result of this.

Jon Adams - Sure. We talked a lot about the idea of intangible. So last year we had a theme called the death of dynamism. The idea that industries are becoming more and more concentrated among a few firms, and it isn't just tech from that perspective. A lot of industries are more oligopolies and a few firms really control most of the resource, most of the profits in those industries. And so this year we've continued that theme and talked about the idea of intangibles and we had the idea about capitalism without capital. So the idea that firms like Google and Facebook have a lot of investment in so-called intangibles and intellectual property and brand value and software technology that don't show up as traditional capital expenditure for example. But the main takeaway there is that profit margins are elevated in those sectors right now, but that they can be sustained. That there isn't really a need for mean reversion. It doesn't have to happen as far as profit margins. In the next recession, you could actually even see these firms continue to increase their share and actually weather the storm quite well in that scenario.

Ben Jones - So with respect to this, when you talk about these oligopolies --

Jon Adams - Right.

Ben Jones - -- continuing to grow and being insulated from potential recession threats, this always leads me to the question of did you guys have the conversation about if or when governments intervene because we've seen that in history with the bells and others.

Jon Adams - Sure. I think there is some pressure. I think that's one way that both sides of the aisle agree that we might need to do something, at some point. You've heard President Trump go after Amazon, for example. There isn't really much a president can do to an individual company as far as their business policies, but I would say that we might see some increasing pressure on these technology companies, in particular, from a global basis. So the U.S. is really the darling of the technology industry on a global scale. Everyone else is trying to create, emulate, what the U.S. has done -- China, Europe, trying to do that as well. So I think you might see some more momentum behind that overall, but politicians don't want to choke off economic growth and destroy jobs overall. So while it might be popular to attack an Amazon or Facebook at certain times, I would say they're limited, number one, as far as what they can do. And number two, they don't want to upset the applecart as far as economic growth is concerned.

Emily Larsen - Lastly, Jon explains the current situation of the Euro Zone and how views have changed since last year.

Ben Jones - We talked about this last time, was this kind of populism theme.

Jon Adams - Right.

Ben Jones - And I noticed that it's not as strong in this year's paper, but it's still a theme. So tell me a little bit about how populism has developed as kind of a global trend.

Jon Adams - Sure. I would say that was one theme that we were kind of early on. We talked about populism going back three or four years and the tendency of countries to look more inward going forward. We saw that occur with Brexit, we saw that occur with President Trump's election, we're seeing that in Italy right now. So I would say a continuation of the populism theme. I would say maybe a bit of momentum behind that theme has potentially waned, but we do see that continuing across developing and emerging markets, really, in the coming years. Trade clearly peaked about 10 years ago, countries, as I said are looking more inward going forward and there are a lot of consequences from that overall.

Ben Jones - And tell me a little bit about you guys particularly calling out Italy this time around. Tell me a little bit about what the discussion was relative to Italy.

Jon Adams - Sure. Yeah, it's a very fluid situation in Italy. We had a speaker who had a very, kind of, high probability of Italy -- of Italian exit so to speak over the next five years. His probability was between 20 and 25% of Italy exiting the Euro Zone. The market probability is more like between 5% and 10% So definitely an out of consensus view, but the view really is that the current coalition is not going to last very long. People equate the current coalition in Italy with President Trump and Bernie Sanders kind of coalition in the U.S. and Italian governments last about a year on average in kind of the post-war era. There are a lot of challenges on debt levels. They're really fighting with the EU overall on the recent budget that was passed and what that does to debt levels going forward. So I think a lot of that is dependent on growth. If Italy can grow at 2% or so, then it can kind of grow its way out of debt to some extent. But if they can't grow at that level, if unemployment stays high, it's in a very dire situation.

Ben Jones - And Italy is a pretty significant economy within Europe.

Jon Adams - Right.

Ben Jones - I mean, I believe what is it -- the third largest?

Jon Adams - Yes. I think -- that would basically be the end of the Euro Zone as we know it. If Italy left, that would be the end of the Euro Zone as we know it.

Ben Jones - Yeah. And so, 20% to 25% probability from your speaker is pretty far out of consensus.

Jon Adams - Right.

Ben Jones - Four times, five times what the rest of the market expressed.

Jon Adams - Right. I would say that we didn't necessarily agree with that view, but our view is that it's a bit higher than the market expects, but it's not a 20% to 25% probability. We think that cooler heads will prevail.

Ben Jones - Now on to a topic that's been all over the financial news: Interest rates. And specifically, how much they will rise out in to the future. Really over the past decade, what was the consensus about how this rate increase cycle would work and now that we're kind of in the midst of it, what was the group's consensus about what the U.S. Fed may do going forward as far as how much further it has to go in raising rates.

Jon Adams - Yeah. The first part of the question, I would say over the last 10 years people in my shoes have consistently over-estimated the degree to which central banks would be able to raise rates. We've been consistently wrong on that. The Fed, going into the last few years, said we're going to raise rates three or four times this year. They might have gotten one hike over the last few years. This year is significantly different; The Fed came into the year saying we expect four hikes. We're probably going to get four hikes this year. We've been over the view the last year and a half as a multi-asset team that inflation was going to surprise on the upside, central banks were actually going to follow through with those rate hikes. So we've been really proven correct to a large extent on that view. I would say in coming years, we expect two to three hikes by The Fed. Next year, The Fed is telling us three potential hikes. But I think if the market really continues to underestimate the seriousness of central banks, the pressure behind an inflation overall. But we've been talking about monetary policy divergence, it seems like for the last 10 years. We've actually finally gotten it really over the last two years.

Ben Jones - And so, there's a lot of people that talk about The Fed's ability to raise next year, being limited by the fact that the long end of the curve has not moved a whole lot -- did you guys talk much about the potential for an inverted yield curves?

Jon Adams - Yeah, we definitely did and over the past couple of days the yield curve has steepened significantly. But that was a topic of conversation. Does it matter if the yield curve gets flatter or potentially inverts and we found a lot of reasons that this cycle is different. If you listen to what The Fed's saying, they're saying we're taking a lot of the focus off traditional measures of the flatness or steepness of the yield curve. Quantitative easing, these didn't even really change things quite a bit I would say, from that perspective. We are still quite a ways away from an inverted yield curve. But even in that situation, a recession follows anywhere from 6 to 18 months after that and equities actually usually do pretty well for the next year following an inversion of the yield curve. So we would caution investors against if the yield curve is inverted to immediately sell all of their equities, for example, because I think that would be a very emotional response and hasn't really played out on a historical basis.

Ben Jones - Okay, so we talked about the U.S. Fed.

Jon Adams - Yeah.

Ben Jones - Let's talk about the ECB.

Jon Adams - Sure.

Ben Jones - It's a little bit of a different situation, but by what I could tell from the paper, there's a feeling that the ECB has enough wiggle room to start raising rates themselves. Tell me about the discussion.

Jon Adams - You know I'd say as far as raising rates, it's probably going to happen fall, late next year, or something like that. As far as unwinding their asset purchases that already happened starting in October, from 30B to 15B per month Euro, it's going to end at the end of this year. So I think there is momentum behind that. As far as raising interest rates, you might get one hike next year. It could be 10 basis points, it could be 25 basis points, but likely a bit later in the year. Where you have seen some changes on wages, in Germany in particular, you've seen wage growth around 4%. So I would say there is increasing confidence behind raising rates among the ECB. Core inflation is still right around 1%, so still well below target. Headline inflation is much closer to target. So I think there is a bit more impetus this year than there was last year to potentially hike rates.

Ben Jones - And with growth kind of slowing in the second half of the year in Europe, do you think that kind of limits their ability to raise rates?

Jon Adams - Yeah -- they're in a hurry to raise rates by any means. You might get one hike next year and then take a pause and see how things work out. The Italian situation is definitely a headwind there. I think the ECB will look at that situation very closely to make sure that they're not tightening policy a bit too much. I think that if inflation does feed through, there will be more confident in the overall outlook. But Europe's been really hurt by the slowdown in emerging market growth this year. Europe is much more exposed to emerging markets than the U.S. is and I think that's been a key headwind for the ECB this year.

Ben Jones - Very good. Now, I want to talk to you about one topic that I've heard several times come up from advisors, which is the incentive of central banks to raise interest when that ultimately raises the interest payments that they have to make on the bonds that they're issuing as well. What is your team -- or is your team even thinking about the government's ability to pay back some of the debts that they borrow at higher rates.

Jon Adams - Yeah. I think we're in a very unique environment where you've got this unprecedented, I would say, fiscal stimulus late in the cycle. Usually fiscal stimulus comes right after a very deep recession. We got it at a pretty good stage of the cycle, kind of late cycle and growth was already pretty good. So we are getting a lot of questions from clients about the sustainability of the U.S. debt situation. We are concerned about it. We've written a lot of pieces on that, but I would say it's more of a medium to long-term theme. In the short-term, we're not as worried about it. You're going to see a lot more stories in the media now about interest payments are going to be bigger than Medicare in a couple of years. It'll be bigger than the defense budget in about five years according to CBO estimates. So you'll be reading a lot more about this theme overall. But if you look at countries like Italy and Japan, they haven't been punished for having a lot higher debt levels than the U.S. overall. Investors are still willing to lend at the U.S. at about 3% on a 10-year basis, only a bit higher on a 30-year basis. I think the market would really have to be the enforcer there and they're not really at that point yet.

Ben Jones - Now with respect to interest rate policy, should the U.S. actually experience this consensus recession, not the one that you guys --

Jon Adams - Sure.

Ben Jones - -- have put forth as your base case. But from a consensus perspective, if we went into recession, The Fed has a little bit more limitations than the tools available to them. I noticed that that was a discussion, walk me through that.

Jon Adams - It definitely was. And a couple of our speakers highlighted this that they had really differing views. What one view was that The Fed might have just enough to cut in a recession period. The Fed can get to maybe 3% on their overnight rate that might be just enough to cut in recessionary period. But in a traditional recession, The Fed cuts 4% to 5%. It's very difficult to think we're actually to get to that 4% or 5% level in this cycle. So I would say a topic of discussion was you might not have the fiscal ability to respond to a recession that you had in prior recessions. We already got the stimulus before the end of the cycle. So a deficit now is about 5% in the U.S., it’s a share of GDP. It's going to get bigger. In a recession it would get much bigger. So fiscal ability would be very limited, monetary ability. The Fed could cut rates from say three to zero, that might be enough. They might need to implement additional forward guidance, additional QE, those kinds of things. But I would say that two years ago we were worried that The Fed would ever to be able to get off zero and have anything to cut for the next recession. So I think we're in a much more solid situation now than we were two, three years ago.

Emily Larsen - As we mentioned, the forums report on the upcoming years includes a base-case scenario for how the markets will look in the future. This year's base case is called *More room to run*. Jon talks about the scenario and what advisors should do about it.

Ben Jones - You have the Global Investment Forum. Everybody gets together and has great conversations.

Jon Adams - Right.

Ben Jones - But ultimately, you have to produce something out of this work.

Jon Adams - Right.

Ben Jones - And so, tell me a little bit about this year's kind of base case or high probability scenario that you developed.

Jon Adams - Sure. I would say we've termed this year's base case as really *More room to run*. I would say an extension of the base case from the last couple of years. But I think the difference this year is that was fully consensus last year that growth can continue on, inflation won't be a concern. But this year, I think, really, one thing we noted was that the market clearly expects a recession in the U.S. in a couple of years’ time. We don't see access as building. We don't see any reason that recession could happen. So our *More room to run* scenario is actually out of consensus on a three to five-year timeframe.

Ben Jones - Wonderful. And that is one important thing to make a distinction here is that the scenarios that you guys build are three to five years out. They’re a secular forecast which is different from people who are just trying to predict what's going to happen in the market next year.

Jon Adams - Right. Exactly.

Ben Jones - Some sort of S&P forecast.

Jon Adams - Sure. Sure.

Ben Jones - So tell me a little bit about, with respect to the base-case scenario, what was different from last year's.

Jon Adams - Yes. What was different: number one -- the growth outlook -- that we now expect the U.S. to really take the lead on growth, continue driving the global economy. Whereas last year we expected areas like Europe and emerging markets to really take the baton from the U.S. But it's been clear the U.S. is in the driver's seat as far as growth. A lot of market forecasters thought we'd see one, maybe two solid quarters out of the U.S., as far as GDP is concerned and as far as corporate earnings are concerned. But the longer this goes on, the more sustainable it looks that the U.S. can keep driving the global growth engine.

Ben Jones - Now, you talked a little bit about this divergence between consensus and around the U.S. recession and your scenario of *More room to run*. I think there's a number of different things that you point out where there are some warning signs. So talk to me a little about corporate debt on the balance sheets.

Jon Adams - Sure. I would say that corporate leverage is probably the number one risk that we've sighted if you're looking at potentially risk factors. But we would note that it's not exceptionally high, it is increasing at the margin. That has an impact on areas like high yield and investment-grade credit. I would say that was one area we had lot of conviction that the shorter underweight side was to be negatively exposed to investment-grade credit, not only in the U.S., but also in Europe. So that's one area you could look to. You could also look at the possibility of a central bank policy error. That's been on investor's radar screens for the last few years. If you're looking at what could a catalyst be for the next recession, it could be that The Fed hikes a bit too much, the economy can't withstand those higher interest rates. But again, we're not close to excessive levels really on any of the traditional metrics.

Ben Jones - And with respect to an advisor that's out there, that buys into your consensus, and they say alright, we like this *More room to run* scenario and we're going to manage our portfolios towards this type of implementation -- what are the warning signs that they need to be watching for where they might think they maybe need to adjust course.

Jon Adams - Sure. I would say wage inflation is probably number one. If you see a significant spike in wage inflation that means The Fed needs to come in pretty hard and respond to that wage inflation. I would say secondly if you see a large dent in corporate earnings. So we've seen 25% earnings growth in the first couple of quarters in the U.S., about 20% expected over the next couple of quarters. If you see a significant hit from a corporate earnings perspective that might be another warning sign of pain to come.

Ben Jones - Okay. And by the time see those corporate earnings come in below consensus, is it too late?

Jon Adams - It could be too late. That's why we caution investors to have a very long-term time horizon. We think the most likely risk, the highest risk, is a central bank policy error. There's always the risk that growth comes in below expectations, profits come in below expectations. But it's very difficult to time the market. If investors were to sell following a weak quarter of earnings growth that would probably be a very difficult position to be in.

Ben Jones - Wonderful. Now one of the things you did this year that I liked is that instead of weighting two other scenarios that might play out, you instead pointed out that the areas where you thought you could potentially be wrong.

Jon Adams - Right. Right.

Ben Jones - And so, I thought that was a really nice touch this year. Walk me through where you think you guys might get it wrong from your base-case scenario.

Jon Adams - Sure. Yeah. I would say you can always come up with an upside and a downside to your scenarios. We think there's a little value in those kind of exercises. It's more what are factors to your point that we could be wrong about or what could drive growth even higher than we thought overall. Again, I would go back to a policy error by central banks. That's one we could definitely get wrong. If The Fed's really serious about hiking rates and it's above a neutral level of interest rates, can the economy withstand that? Secondly, can the U.S. really stand on its own two feet after the fiscal stimulus ends? Could the consensus be correct that once the fiscal stimulus is really done at the end of 2019 are we going to see a recession in that scenario?

Ben Jones - Got it. And there was a discussion about this area where you might be wrong where maybe the EU does end up having some struggles or falling apart.

Jon Adams - Sure.

Ben Jones - Talk to me a little about how that unfolded.

Jon Adams - Yeah. I think it's clearly Italy in that instance that you have to look at, we just saw a budget pass in Italy, things have calmed down for the time being. But again, we don't expect the current coalition to last very long. That's a definitely risk factor. Also areas like France and Spain could be concerning. You are seeing the coalition in Germany lose a bit of support overall, and that was kind of always the bastion of stability as far as the European Union was concerned. So we are paying close attention to that. And the way Brexit unfolds over the next six months, it's difficult to make a five-year forecast when you have a very unpredictable event that's going to occur in the next six months. So that'll be something that we might revisit. We were a little bit careful on the language there, I would say, in the piece overall, but that will be an important theme for next year's forum.

Ben Jones - Now, there's going to be a lot of people who listen to this and say well, that's great. He told me a lot of cool stuff. It's neat to hear the bobble heads. But at the end of the day I am an advisor that has to do something.

Jon Adams - Right.

Ben Jones - Take action with this information. So tell me a little bit about what the portfolio decisions that an advisor might want to consider making as a result of the insights that you've gathered at your forums.

Jon Adams - If I point to three main points:

1. A desire to be overweight equities.
2. Overweight U.S. within equities.
3. A high conviction view to be underweight credits.

We think advisors, investors should take their risk in equities. That's where you're best compensated. Spreads are already very tight as far as investment grade in the U.S. and Europe, high yield, emerging market debt. Spreads could tighten modestly. But I would say are more likely to go a bit higher or even potentially sharply higher. So we think there's really an asymmetric risk profile in credit and investors should take their risk right now in equities.

Ben Jones - And for advisors who are dealing with clients who are far more concerned than your current base-case scenario, how do you think that they can insulate some of the risks that you see out there.

Jon Adams - I think it's more of a strategic asset allocation discussion, really, if you have some skittish investors. Perhaps they should be in a more conservative or moderate portfolio than a more aggressive portfolio. I would, again, reiterate the need to have a very long-term time horizon. We keep going back to this theme. The market just gets shorter and shorter term as far as time horizon. We think that really gives us the opportunity to potentially add some value for clients because we're taking that one to five-year investment time horizon, a lot of investors are focusing on a one to three month time horizon. That really creates opportunity for us as asset allocators.

Ben Jones - So there you have it. And we'll be sure to have Jon back next year where we can revisit their scenario, *More room to run*. Thanks to Jon Adams for all of his insights from this year's events and especially to all of the participants in this year's Global Investment Forum.

Ben Jones - Thanks for listening to *Better conversations. Better outcomes*. This podcast is presented by BMO Global Asset Management. To learn more about what BMO can do for you, visit us at www.bmogam.com/betterconversations.

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Ben Jones - And I'm Ben Jones. From all of us at BMO Global Asset Management, hoping you have a productive and wonderful week.

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