THE PERFORMERS

CANADA'S INFLUENTIAL THOUGHT LEADERS

KURT REIMAN
Chief Investment Strategist, BlackRock Canada

> EMERGING MARKETS ARE SEEING STRONG GROWTH, CHEAP CURRENCIES, VALUATIONS AT A DISCOUNT, RETURN ON EQUITY RISING AND EARNINGS MOVING UP. A LOT OF THAT HAS BEEN GROWTH IN THE TECHNOLOGY SECTOR — NOW THE LARGEST SECTOR IN EMERGING MARKETS.
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From global elections and trade barriers to domestic debt and interest rates, there are a lot of moving parts for plan sponsors to track and interpret. We asked BlackRock's Kurt Reiman to share his perspective on some of the forces currently shaping Canadian stock and bond markets.

What global trends are having a positive impact on Canadian equities?

This year's synchronized global expansion has been a positive force. Unfortunately, Canadian stocks started the year on the expensive side, and have been under pressure because of concerns about protectionism and oil prices. Now we have to contend with the Bank of Canada raising rates sooner than expected. So there have been a number of hurdles, but the situation would have been worse without a sustained and synchronized recovery in the global economy.

Does the high level of debt in Canada concern you?

It's something we've been focused on for awhile. High levels of debt in China and the United States capture investors' attention more than debt in quiet, well-behaved, peaceful, socially liberal countries like Canada. But the debt level in Canada is red-hot, and it's not just Canadian households that have an alarmingly high level of debt, it's also companies. It doesn't mean that a financial crisis is imminent, but it does make it hard to grow – especially if there is a recession or a sharper than expected rise in interest rates.

How will the U.S. administration's approach to trade affect Canadian equities?

About one in four Canadian revenue dollars is the result of a sale in the U.S., and one in five Canadian GDP dollars is because of an export to the U.S. Countries like China and the U.S. rely less on exports and more on consumption and domestic investment. Canada relies heavily on trade. And now, on top of renegotiating the North American Free Trade Agreement, the U.S. is deregulating its energy sector and pulling out of the Paris climate accord. That sets up a very different competitive landscape for Canada's important energy sector. On the other hand, approving the Keystone XL Pipeline is helpful to Canadian energy producers. And, in the midst of an economic expansion, we think it's unlikely the U.S. administration would cause harm through raising barriers and implementing protectionist measures. I think NAFTA will be updated for the 21st century and its rules of origin may be tightened, but I don't think it will be tossed out.

Where can institutional investors turn for opportunities?

Because of recent strength in U.S. equity markets, many Canadian investors are overexposed to U.S. equities and underexposed to opportunities in other global markets. We're positive on emerging markets, Japan and Europe. That doesn't mean we don't see the potential for markets in North America to move higher this year. It's just that we think investors will get better risk-adjusted returns outside North America.

Emerging markets are seeing strong growth, cheap currencies, valuations at a discount, return on equity rising and earnings moving up. A lot of that has been growth in the technology sector – now the largest sector in emerging markets. Emerging markets used to have bank-heavy and natural resources-heavy equity markets with a similar sector composition to Canada's. That's no longer the case.

We often think about Japan as an export powerhouse, but despite a decline in the working age and overall population, Japan has experienced strong improvement in its domestic economy. Yet that's not reflected in valuations; Japan is the cheapest market in the developed world. In addition, Japanese equity markets offer operational leverage, with high fixed costs relative to variable costs, so an upturn in economic growth tends to have a disproportionate effect on profitability.

In Europe, we were pretty resolute that centrist candidates would win key elections, and that's still the case regarding upcoming elections. Meanwhile, economic activity has surprised everybody, but that hasn't been reflected in financial markets because of investors' political concerns. Populism and economic nationalism may be an issue for another day for Europe. Right now, I think investors are too persistently negative in the face of improving economic data.

What disruptors have the potential to affect the investing landscape?

First and foremost, there are the changes central banks are making after several years of ultra-loose and accommodative monetary policy. That's a risk to bond markets to the extent it's not already priced in. It's also a risk to bond proxies in the stock market. When investors play defence, they have to know what they're playing defence against. In contrast to traditional defensives, which help protect against recession, cyclicals and deep value stocks may perform better in an environment of rising interest rates.

WHAT MAKES YOUR DAY AT WORK?

Back-to-back client meetings in which clients share their biggest challenges so I have an opportunity to provide context to help them along their path.

HOW HAVE MENTORS HELPED YOU IN YOUR CAREER?

They've asked me, repeatedly, what are you planning to do next in your life? It's not that they have a prescription, but just that they remind me to grow and not get too comfortable.

WHAT WOULD YOU BE DOING IF YOU WEREN'T AN INVESTMENT STRATEGIST?

My two favourite pastimes are playing piano and cooking, so I suppose I'd be recording my compositions in a studio and making meals!

FICTION OR NON-FICTION?

I read non-fiction for what I need to know in life, and fiction for enjoyment.