ETF Exchange Podcast

Episode 32 Rough Transcript

Announcer: Hello and welcome to the Fidelity ETF Exchange, powered by Fidelity Connects. Fidelity Connects was proudly ranked the #1 podcast by Canadian financial advisors in the 2022 Environics Advisor Digital Experience study.

On today's episode, host Etienne Joncas-Bouchard is joined by Cameron Chamberlain. Cam, a Portfolio Strategist here at Fidelity Canada, has joined Etienne before, and is back today to share his insights on everything he's seen so far in 2022 from a portfolio strategy perspective. Cam's role focuses on optimizing diversification and analyzing risk within a portfolio and considering the year we've had so far, there is a lot to talk about. Enjoy.

This podcast was recorded on July 28, 2022.

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Etienne Joncas-Bouchard: Hello everyone and welcome to the Fidelity ETF Exchange. I'm your host Étienne Joncas-Bouchard, a.k.a. EJB and I'm very glad to be back behind the mic. We're doing more episodes in a shorter time frame and it's good to get back in the swing of things to talk about markets. Albeit we're in the middle of summer. It feels like there's headlines that are truly impactful on our portfolios right now. Today, I don't think we could have a better guest to talk about kind of the ramifications of some of the moves we've seen in markets, whether that be rising rates, the impact of inflation, factor biases, risk on fixed-income sides. He can do it all, and that man is Cameron Chamberlain. Cam, welcome to the show.

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Cameron Chamberlain: Thanks for having me back.

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Etienne Joncas-Bouchard: Yeah, absolutely. Thank you for coming back. It is a second time now in a row. So our last episode we actually had Andrew Clee on. That was his second time. You're on your second time. So we're creating this pool of recurring guests now, which is great and also fun because I think our audience then can get to know yourself and some of these other recurring guests and truly understand the value that you guys bring to Fidelity and to our advisor base as well as investors in general through this podcast, which is targeted to both those audiences. So just very briefly, I'll give you a quick intro and I hope I don't mess anything up. Cam's been at Fidelity for quite a while now. More importantly, in the role that you're in now, it's already been a few years. Correct me if I'm wrong, right, Cam?

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Cameron Chamberlain: Yeah, that's right.

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Etienne Joncas-Bouchard: So a few years now as a portfolio strategist, an expert in analyzing the various risks that certain portfolio faces, looking at how we can optimize diversification, stress testing, empowered by some of the tools that you and your team have developed here at Fidelity. So really lots of knowledge that's gathered in conversations with advisors. And the objective for today is to kind of just pick your brain on what you've been hearing, what you've been seeing, just tidbits on events in markets in general.

Also, before we get into that conversation, though, Cam, just a quick, quick, quick recap on what we did last time. That was with Andrew Clee, like I mentioned. We did the quarterly ETF industry recap in which we talked about some of those headlines that I kind of already mentioned. But, for example, value kind of giving way a little bit back towards quality growth. In Q2, we saw credit spreads widen a little bit, really tough environment for bonds just in general. We saw interest rate hikes finally come into play and not just anticipations of rate hikes. We also talked about floats, right, so what's been popular in the ETF industry. We also saw in June the first month of net outflows in three years in the Canadian ETF industry. So quite a change in momentum as markets were definitely not obviously ideal from a performance standpoint.

So, let's get started. Cam, I know you've been on the show before, and I think we had the time to kind of discuss what a day in the life of Cameron Chamberlain looks like, but I think it's worth it to do it again. I kind of gave a brief overview there, but I'd love it if you could go on a bit more detail on what you and your team do on a daily basis.

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Cameron Chamberlain: Absolutely, happy to do so. So I spend my day speaking to financial advisors across Canada about investment portfolios, trying to understand the goals that their investors have, how they're helping them achieve those goals, and really taking a look at their portfolios and making sure that they're aware of the biases or gaps that they have, that they're wanted and not unwanted. And if for any reason that there is something that surprises them about their portfolio that we're able to point out or highlight, then we can have conversations about all the possible ways they could try to address those challenges to make sure that the portfolios are going to behave as they expect them to in a whole host of different market environments. Really just trying to get a better grasp of the types of questions they're receiving from investors, the types of concerns that they have about the market and making sure portfolios are appropriately structured to meet all of those different challenges day to day.

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Etienne Joncas-Bouchard: No, that's great. And I think one of the things you mentioned there, which is really interesting and kind of captivating, is trying to identify biases that might exist either by design or just not by design. And I think that's where a lot of the value comes in is sometimes you go through a portfolio and say, oh, there might be a tilt toward something that we didn't even expect, whether that be just because of the name of a given fund or something like that or exposure to certain stocks that tend to correlate maybe a bit stronger than we would have anticipated. I find that quite, quite interesting and I'm sure it happens quite often, right? Like that's something that more often than not there's stuff that we kind of uncover when opening the hood, right?

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Cameron Chamberlain: Yeah, there's usually a little something at the very least. I think the goal and the dream is that you take a look at your portfolio and new platforms and think about it in different ways and ask tough questions and everything looks exactly as you expect it to. The reality is that's not usually exactly the case. And there are at times the biases that come through. Maybe you actually, you know, you love energy. You might have a whole bunch of different energy names, ETFs, funds in your portfolio. You may not quite understand how much additional volatility that drives in most market environments. So it works well, while, of course, maybe energy as a sector is outperforming. But what happens if you hit a bump in the road and that outperformance turns into underperformance? So it's very easy at times to think about building portfolios from just a weighting perspective and thinking about, okay, I want a 20% allocation to a given part of the market. But to some extent, if that 20% allocation is 50% of the risk in your portfolio, then really it's going to have a much greater than maybe desired impact, which is fantastic in an environment where you're right. But the challenge is, of course, that environment where you're wrong and those types of biases can be found in portfolios for a whole host of different reasons.

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Etienne Joncas-Bouchard: That really is quite interesting. And it makes me think also is that you're talking about that diversification aspect where it's ... you want to find... If there are any biases, you want to identify them so you can address it from a diversification standpoint. Have you found and maybe this is just completely random, but it feels like because you said if you have a concentrated portfolio in a certain space, whatever it may be, as long as that space is going well, there's not that much desire to change it, right? And that's just human nature. Have you found that when markets are doing well, generally, it seems like some of the conversations are more tilted towards like, how can I optimize and improve performance? Whereas maybe there's more volatility in markets is how can I diversify better? Have the conversations changed a little bit because of market volatility or is it kind of the same thing regardless of how markets are doing? Your role as a portfolio strategist remaining kind of the same?

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Cameron Chamberlain: Yeah, I think the conversations change. I think the conversations that I try and the questions I try to ask don't necessarily change. They're kind of more challenging. And I would ask and kind of question any investor to take another look at your portfolio and say, what if I'm wrong? Because you're not going to be right about everything all the time. Nobody is. So it's about making sure that you're building a portfolio and taking on those positions and in a way that allows for the possibility that you might get something wrong, maybe because new information becomes available, market dynamics shift or whatever that may be.

Certainly last year, as you saw kind of market leadership change a couple of times throughout the year, it gave us a little bit of an early warning signal for people that really that long-term trend isn't necessarily going to be one direction all the time. If you think about growth's outperformance of value, for instance, market leadership changed a couple of times from a factor standpoint last year. And so you've got more people now throughout the year saying, okay, I really do need to be thinking a little bit more about diversification, even though the general trend in markets was still up.

Certainly this year, as you've seen, of course, markets turn negative, it has opened up conversations and I think a lot of people's eyes to making sure that you actually have that diversification, have a little bit more exposure to maybe some parts of the market that have been neglected for, in some cases, the better part of a decade. And really making sure that your portfolio is a little bit more built for all-weather environments rather than just saying, I expect things to be going well, I expect growth to continue to outperform. So the conversations from a diversification standpoint have definitely changed this year compared to the types of discussions we were having certainly last year, but in particular and before 2021 really kicked off when that same trend had been running for so long.

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Etienne Joncas-Bouchard: So this actually leads, I think, well into a question I'd written down to actually start was that 2022 has been this really tough year. Like from a diversification standpoint, if I could say that it seems like a lot of asset classes that generally display very low or even negative correlations, for example, is like treasuries and like the equity market have correlated more strongly or they increase … anyways. Has that been a big challenge just in the marketplace? And, were there any places to hide? Like, is there anything that we could have done?

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Cameron Chamberlain: It's a great question because the reality is, I mean, have there been places to hide? Slightly, but not really any big glaring opportunities. Early in the year, you could have owned energy. You could have owned in the bond space, floating rate loans, for instance. You certainly haven't seen the same kind of downside through much of the year as the investment-grade bond or high-yield bonds have. And in particular, just the credit market early in the year held up much better than what would traditionally be a lower risk asset in investment-grade government bonds or treasuries, for instance.

So certainly the investment-grade space and honestly just yields in general moving so much higher as equity markets sold off, obviously is what caused that correlation to flip positive for much of 2022 and certainly has created challenges for, I think pretty well every investor.

I think one different way to think about it is that still, if you were invested in the bond market in so far in 2022 through the first six or seven months of the year, your portfolio still hasn't been beat up quite as badly as if you'd been just an equity market investor. So while the performance hasn't been great and the correlations have been positive, you still to some extent have mitigated some losses just because it's typically a less volatile market and still has been this year, just not quite that same level of diversification as you maybe would have hoped for out of a more traditional balanced portfolio. So certainly it's been tough for investors. I do think that the market environment is starting to change again as interest rate hikes are already being priced in by the market. The market commentary and much that's said and written about the market is obviously starting to change from inflation concerns to growth and recession risk. And that's changed the way that that bond stock correlation has moved as well, started to get back in negative territory over the last few weeks, certainly through the second half of June and July. So it's really just all about trying to get a better understanding to some extent about what you're trying to set your portfolio up for and making sure that you're insulated for the scenarios that you think are coming next.

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Etienne Joncas-Bouchard: All great points. And like you said, I think that the timing of rates going up and getting an equity sell off at the same time obviously is not good. Now, it seems like you said in the last couple of weeks where you have seen… you haven't seen like strength in equity markets by any means, but you've seen kind of like almost signs that there may be some type of bottom forming. Is that like the market is anticipating a slowdown now, whereas at the beginning of year they were trying to price in a slowdown? So if we do see yields kind of topping out a little bit and equity markets stabilizing, you'd see that relationship restored a little bit, right? Which would be good given a lot of investors are in that kind of like 60/40, 50/50, 70/30. But most investors will own some bonds to a certain extent.

My next question, Cam, is what are some of the common changes that you've seen being made in portfolios this year or even more recently we could say? We're July 28th right now, just so, I don't know when this episode is going to come out exactly. So if we quote any very timely stuff, just note that we're recording July 28th. What are some of the things that you've seen changed in portfolios?

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Cameron Chamberlain: Well, I think early this year you saw a big shift in many portfolios becoming a little bit more credit oriented on the fixed-income side. So a lot more high yield, some floating rate loans, investment-grade corporate bonds, more exposure to potentially, at times, riskier parts of the fixed-income market and an avoidance of any kind of fixed-income assets that were more correlated with treasuries, mostly because it was the change in and move in yields that was causing a lot of the negative performance. There wasn't a whole bunch of credit spread widening or anything along those lines early in the year.

So that was a big shift in the sense that in an environment where there's nowhere to hide, you haven't had really a great opportunity for really dramatic outperformance. But to some extent, when you shift more of a portfolio to credit-focused fixed income, you're also increasing the volatility of that portfolio, increasing the risk of that portfolio as well. And in most environments. And so the challenge that we've seen now over the last six weeks or so as credit spreads have been widening more dramatically is that that shift that worked very well in the beginning of the year has reversed itself fairly dramatically as yields have been coming down at the same time. So really, it's been the investment-grade space where you've been seeing better returns more recently, not from a lot of those credit-oriented strategies.

So it's really a question, I think, about how you want to set your portfolio up for what's next. Because if you think and you're of the mindset that you're not going to see a severe recession, that you're going to start to see that, maybe you already see spreads top out or very close to it and then start coming back down then, certainly, yes, go and add to credit. Make sure that you have some of that exposure in your portfolio. I would also argue in that situation, you probably want to own equities as well and potentially owning equities over credit-focused fixed income.

But if you're trying to weigh the odds of recession risk and trying to insulate your portfolio to some extent as well, you really need to make sure that you have some of those higher quality government bonds, investment-grade corporate bonds in the portfolio to make sure that you at least balance out the probabilities of recession risk versus economic recovery. Because the reality is, if you skip any kind of recession, you get right back into a recovery phase. You've probably got that equity portion of any balanced portfolio that's going to do very well and frankly offset any losses if you do see yields rise back up again, whereas you don't have really anywhere to hide unless you have that high-quality government bond treasuries type exposure in your portfolio in a recessionary environment.

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Etienne Joncas-Bouchard: Those are all great points. And you mentioned the switch to maybe adding more credit exposure because spreads were holding up so well and default rates were fairly low and they stayed low. And, the word that we're getting from our fixed-income team that manage some of the ETFs that we have here is that they don't expect default rates to blow up any time soon as most balance sheets look a lot better coming out of COVID refinances, push the maturity wall back. So, albeit Q2 is a bit tougher, like you said, it definitely probably was worth it in Q1. Now it's time to look to the future and say, okay, what are my expectations from an economic standpoint. If we're going into a recession, maybe that's the time where you want to shift back to kind of the more duration-focused type plays with Treasuries and things like that.

Did you notice also a shortening in duration in general? I know obviously when you are, for example, adding credit, generally speaking, you will be lowering your overall sensitivity to rates. But is that also another theme that you've seen where it's like even if you held ... say you need or you want to hold government bonds in your portfolio for whatever the reason may be, like going from like an eight duration to like a 4 duration with shorter government bonds. Is that something that you've seen also?

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Cameron Chamberlain: Yeah, I think shorter government and shorter corporate bonds as well. I think in general, everybody was just afraid of rate sensitivity. So shortening duration is the best way to reduce that. Obviously, as you said, if you're going and looking at the credit space, you're likely going to be shortening your duration, reducing interest rate sensitivity relative to investment-grade government and corporate bonds anyways. But certainly many, many portfolios that I've seen have been much shorter in nature through especially the first quarter of the year, starting to see duration widen out again in some portfolios as people have started to realize that you still need a little bit of that higher quality exposure to help cushion portfolios in many more normalized market environments. If you want to think about it that way, that longer term trend that we've seen over the last 30 or 40 years.

So certainly that has been a bit of a challenge. And so looking at the investment-grade space, not just from saying, okay, we're going to go and own only shorter duration assets, but also some of the more boring bonds that are made to help provide protection to some extent where you know you're reliably going to receive your coupon payments, you know that you're not going to see defaults from like the Canadian or U.S. government, for instance, and making sure that you have some of that ballast in your portfolio as some have started to lengthen out duration. I would still say for the most part, many portfolios that I've analyzed recently are still fairly short and shorter than you would typically see out of investment-grade bond indices that are out there. But certainly you're starting to see a little bit of a reversal as more and more investors have realized the challenges of just running kind of shorter term and more credit focused as well.

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Etienne Joncas-Bouchard: That's great. And I don't mean to harp on fixed income because I know it's not necessarily the most exciting of subjects for everyone, but I think it's important that we talk about it because we're coming off of probably I think Q1 was the worst quarter since the 1980s. If I'm not wrong, I think like early 1980s and we've had the worst 12-month total return in more than 25 years. So it begs the question is that we've seen anyways from our perspective and, I guess the meetings that I've had with advisors which aren't as much on portfolio construction but just about which products to be looking at in the current environment, things like that. We're starting to get this vibe that bonds are maybe a better investment than most people think at this point, right? Obviously if you've had bonds in your portfolio this year, it's been very tough. But like starting from today, where yields are, like where spreads are, which are kind of no man's land right now, I think, are arguably right, like high yield at 600 bids in the U.S. is probably right in between I guess selling it at 400 and buying at 800. But in general, the market seems like we're in the top quartile from yield rank over the past 15 years for every single one of the sectors. Is that a vibe you're getting also where if you were a 60/40 and it went to 70/30 because of 2020 and 2021, now's maybe the time to start going back to a 60/40? Say you stretched your parameters if you will, or your risk barriers. Is it time to reel it back in a little bit? Are you're getting that feel from advisors?

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Cameron Chamberlain: Yeah, I think that there's certainly greater opportunity now in the bond market than there has been for much of the last decade. You're seeing yields elevated on government bonds as well. So you're getting paid a little bit more to actually take on and own government bonds than you have been in the past. And then certainly you're seeing spreads a little bit wider now than you've seen for … obviously not during the depths of the COVID drawdown, but much of the period before that and since.

So certainly, I think from a yield standpoint, it's far easier to find bonds and bond products that are yielding 5, 6, 7% even in the investment-grade space. So higher quality bond products that are going to turn out a pretty strong positive return for you just through interest payments. And then with where spreads are now, if you have a long time horizon, then you're probably going to at some point see tightening and there's going to be capital gains opportunities in there as well. So

I do think that you're probably looking at an environment where bonds put up a little bit more of a fight with equities in terms of total returns. And that's not an environment that we've been in for years and years.

Certainly when you take a step back and look at the full year, it's not going to look great. Likely when we get to the end of this year, potentially looking at a market environment where you see investment-grade bonds providing back to back years of negative returns in 2021 and possibly in 2022. We haven't seen that really at any point in history in the last 40 or 50 years. But if you were an investor today and thinking, where do I want to reallocate some of my assets? If you're very risk focused in your portfolio risk on, then I think it's absolutely prudent to maybe take a bit of a step back and realize that you might be at a little bit more of a balancing act between stocks and bonds. And it's a little unclear at this stage which actually is going to outperform the other over the next 12, 18 months.

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Etienne Joncas-Bouchard: Great. All right. I was going to go for another fixed income question. I think we'll give it a break. We got to talk about equities. Obviously on the ETF side here at Fidelity, we do tend to focus on various investment factors or equity factors, given that the majority of our lineup is consisted of those types of products, you know, factors like high quality, low volatility, momentum, etc. But, kind of those two big themes that everybody seems to bucket everything in is either value or growth, right?. And we know that there's tons of stuff in between. But like you mentioned at the beginning in kind of that introduction part is preparing for and expecting value to do better. It's happened. Where do we stand now?

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Cameron Chamberlain: So I think we're at a kind of interesting crossroads in the sense that if you're of the mindset that you're just looking at value versus growth, a lot of those companies that you probably consider growth-oriented businesses or growth companies and growth stocks have, honestly, because of the valuation shift, maybe now found themselves in more of the value bucket. So it's kind of interesting because we could talk about big names like Facebook or Microsoft and all the FAANG names that a few years ago you would've said, Oh, they're all the growthiest parts of the market or growthier parts of the market. And a lot of those stocks have been... their valuations have been reset the most. And to some extent, they're starting to show up in a lot more value screens than they have at any other point in time.

So you are starting to see this change in dynamic. I personally think that it's really important to review your portfolio and make sure that you know the biases that you have right now. Because if you already own a lot of these names and you thought you had a growth-focused portfolio, well, you probably don't anymore. And if you want that growth-focused portfolio, you might need to think about other parts of the market. And at the other hand, if you don't own some of those names right now, if you don't have a little bit of value-type exposure in your portfolio, you might have a bit of a gap there that you're not looking for as some of these businesses potentially can bounce back and start to recover.

So it really depends on how you're invested and how you expect the market to evolve. But certainly where we stand today, having seen a really strong outperformance of value for much of this year and those more traditional value-oriented funds, for instance, really leaves, I think, investors kind of questioning what comes next. And that's always the big question, of course. And if we had a crystal ball, that'll be fantastic. All we can do is kind of say what we expect to happen using history as a guide and trying to put a probability around different outcomes.

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Etienne Joncas-Bouchard: All right. So Suncor is growth and Facebook is value now, right? We completely flip flopped it. I kid. But no, that's really interesting and I think it kind of the same thing is that from our meetings we noticed this huge this almost like disgust for value, right? Like nobody wanted to own value for so long because it wasn't working like since 20 ... other than 2016 in which you kind of had that like mini early cycle after kind of those technical recessions we saw in 2015 due to commodity price collapses and things like that. Value just wasn't something that advisors and investors wanted to talk about. It was almost like taboo. Now it started working again. And I think there's a lot of people kind of getting ahead of that and positioning portfolios for it.

But at the same time, there was also a true belief which was a very realistic or very true reality, if you will, that like growth had been doing very well. Why would they not continue to do well? And then you get higher rates, right? And then your valuations are just the higher valuation, generally speaking, should be more sensitive. It's kind of like duration almost, if you will, for equities. So we have seen a reset there.

And actually just to support what you were kind of mentioning, the way we look at our various factors, we kind of look at a historical premium or discount relative to the broad market from a percentile standpoint and only looking at the price to earnings just to keep it simple and high-quality stocks, which are the way that we define them as high return on invested capital, high free cash flow margins, stable earnings. So those types of businesses. Some of those large-cap tech names were definitely in that category. They've gone from about like the 95th percentile of their historical valuation to start the year to about the 10th right now. So you've seen like a massive rerating in some of these names to your point where they're attractive from a valuation perspective, also on top of what they're providing from an earnings quality standpoint. So really interesting change there.

One other factor that we don't talk a ton about and we were actually chatting about this before we started is the small-cap factor or small-cap bias? Small caps have been getting hit pretty hard on a relative basis to large caps, which is fairly typical, if you will, of like a mid-to-late cycle, almost, I'd say, late-cycle phase of the market or business cycle. What have you heard about that? Is that like a tilt that you see in some portfolios, or it is maybe time to start looking at it a little again or any comments on small caps in general, basically?

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Cameron Chamberlain: I think to some extent it always depends on your investment horizon, whenever having any type of conversation. And over long, long periods of time, small caps have historically outperformed large caps. So I think it does make sense for some people to say, rather than trying to time the small- versus large-cap discussion just to include a sleeve of smaller, small- to mid-cap companies in portfolios and just acknowledge that there's going to be volatility to some extent because of the size factor, but then ultimately that it's going to pay off. And there are different ways you can take on small-, mid-cap exposure. You can go high octane, small and mid-caps that are going to be very, very economic and market sensitive. You take a low-volatility approach to smaller caps that helps smooth the ride out a little bit more throughout the cycle.

Certainly if you're looking just tactically in short term, more shorter term oriented, it depends on what you're expecting from the market. If you're seeing and worried about a recession risk, generally speaking, you'll see large caps outperform smaller caps during recessionary environments. You get that flight to safety. If you expect that maybe you skip that stage of the economic cycle to some extent, you avoided a recession, or if we get one, it's pretty shallow. Then you get pretty quickly back into that early-cycle recovery. Then small caps historically outperform in early-cycle environments.

So again, it's all about that question of what you're trying to insulate your portfolio against and then position yourself for. In the shorter term, there are different scenarios. I would say in general, I try to avoid just making it an entire and complete call in a portfolio one way or another. You just want to be balanced. And for some people that means upfront to own lower volatility, small caps right now, so that even if you get that recessionary environment, you protect a little bit with the low volatility on top of it.

And if you don't get that recessionary environment, that economic slowdown that typically affects and impacts smaller businesses, smaller companies more, then you still get some of that small-cap exposure to start capturing upside on the other side of the cycle as well. So there are definitely different ways to play it and it's all about what you're really looking for. And again, just trying to make sure that your portfolio is positioned for the way you expect the market to play out while still asking yourself a little bit, Well, what if I'm wrong? Do I have some kind of hedge in here too?

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Etienne Joncas-Bouchard: You might have created a new factor: small-cap, low-vol. It makes a ton of sense when you think about it, right? The low vol will do well in the late-cycle recession and then your small caps are doing good in the early mid-cycle. That seems like a pretty good portfolio over the long term.

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Cameron Chamberlain: And I have to say, I wouldn't take credit for inventing any kind of factor combination because there are certainly active mandates out there that invest in small caps in lower volatility ways, and try to provide that smoother ride through the small-cap space. So again, certainly different ways that you can approach different factors.

And I've had lots of conversations with people even recently talking about how they want to own all these companies that have high free cash flows. And then you kind of take a look at their portfolios and they haven't thought about quality at all as a factor and they don't have much exposure there, where realistically, if you're saying I'll have one of all these businesses with really high free cash flow yields and that are generating so much cash flow right now, you kind of expect them to have that quality tilt. And at times you don't because you're looking at different parts of the market that might be a little bit growthier or maybe you're kind of deeper value. And as a result, you kind of miss that middle ground that sometimes quality gets thought of as. And so really that's one of the reasons why as you're looking at that late-cycle environment if you say those are the types of businesses I want to own, those are really just higher quality businesses that typically will score better from a high-quality factor standpoint as well.

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Etienne Joncas-Bouchard: Yeah, absolutely. And anyways, like we were saying earlier is also like that's one metric. The free cash flow margin can be quite volatile. Just consider energy, like exploration and production like subsector, a ton of free cash flow right now. Didn't have much free cash flow two years ago, but the quality businesses are the ones that have stable free cash flow margins, right? Like you want to be able to generate free cash flow year in, year out, quarter in and quarter out.

And regardless of where we are in the cycle, which is I honestly ... that's a factor we've been talking quite a bit about in an environment, especially an inflationary environment in which a lot of companies who have, I guess, less flexibility with their pricing power, with their supply chain will likely be more sensitive when we see kind of the ramifications of higher inflation for like 12, 18 months. We're expecting somewhat of a margin compression and quality could be a good place to go for that.

Cam, we're already at 32 minutes. I got one last question for you. What would you say is the number one risk going forward for most portfolios? Like what is the kind of elephant in the room, if you will?

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Cameron Chamberlain: I think it's North American recession risk. And I say that because I think in particular most portfolios, especially with all of the geopolitical events that have occurred in China, emerging markets in Europe with Russia and Ukraine this year, more and more investors have been flocking and coming back home to Canada and the U.S. on the equity side of their portfolios and to some extent understandably so.

You feel more comfortable in markets and investing in businesses that you're more familiar with, you know, you hear about more often. The challenge that you run is that you get the Canadian and U.S. markets and economically tied together pretty severely. And right now they're on the same path for monetary policy tightening. They have been so far at least. Ultimately, if you get a recession in Canada and the U.S., then you're probably going to see a more significant market impact in those two markets than you might in some other markets around the world that are just at different stages of the economic cycle.

Do you see a continued reopening and economic growth in China coming out of their kind of growth recession, as we would refer to it, our global asset allocation research team typically to refer to it? Then you actually might see those economies in the Asia-Pacific region, both emerging markets and developed markets that are more tied economically to China, that have an opportunity to generate stronger returns than you see in North American markets. If you get that kind of recession. And that's not something that I'm seeing a lot of exposure to right now in portfolios. So that to me would be a main risk. And of course, tied to the slightly increased allocations we've seen to credit in shorter duration, not necessarily the best set up for most recessionary environments.

So to me, it's more about just diversification. If you're concerned a little bit about the position that you have right now about recession risk, just ask yourself if there are assets out there that you could get a little bit more exposure to in your portfolios than maybe you have today, even if it's not your base case. But to start to try to protect yourself a little bit just in case you're wrong.

[00:34:37]

Etienne Joncas-Bouchard: What a great answer. I was going to add something and I don't want to. That was great. Thank you Cam for joining us once again. Very happy to have you on. Enjoy your vacation. This is, I think, one of the last duties you have to do. So, well, there you go. Thanks, Cam. Thank you, everybody, for listening in.

[00:34:53]

Cameron Chamberlain: Thank you very much for having me.

[00:34:56]

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