The Upside

Canadian Investing Trends

Joe Overdevest, Director of Research, Portfolio Manager

Emily Anonuevo, Host

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Emily Anonuevo: Hello everyone, and welcome to The Upside. I'm your host, Emily Anonuevo. We're coming to a close of the first half of the year and there's a lot to reflect on over the last 12 months as Canadians come out of this unprecedented health crisis. Today, approximately 8.7 million people in the country are vaccinated. That's about 25% of the population. In some small ways, life seems to be getting back to normal. It's a wave of optimism many Canadians are riding, but there are still concerns ahead. As our economy begins to recover and reopen, what's Canada's place in the world? What key trends should investors be focused on as we settle into the second half of the year? To share his insights, we're joined by portfolio manager and Director of Research, Joe Overdevest. Joe has been at Fidelity close to 20 years and manages many funds and products on both the retail investing side and a number of pension plans in this country and he also co-manages the Fidelity Global Natural Resources Fund alongside Darren Lekkerkerker. Joe, welcome to the show. So great to see you, virtually, of course.

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Joe Overdevest: Thanks Emily. I'm excited to be here,

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Emily Anonuevo: Excited to have you here, looking forward to our conversation and just like to remind our viewers if they'd like to be part of the conversation and ask you a live question during the show, just go ahead and do so by clicking on the Q&A icon you see on your screen and submitting your question that way. Joe, I'd like to begin with a bit about you, your background, your story. I know we've spoken on several occasions and I know that you grew up on a tree farm in Ontario. You graduated from Wilfrid Laurier with a business finance degree. Just curious, were you always interested in investing and did growing up on a farm influence your career choices at all?

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Joe Overdevest: Yes, growing up on the farm, the tree farm in Windham Centre, Ontario, a very small town, obviously. It was great. Worked alongside my family every day and taught me two big things: how to work hard and number two, how to respect others. I hopefully carry that forward in the work I do as a steward of peoples' capital today. Did I ever envision doing anything with investing? No, for sure, no. That's the benefits of going university and doing co-op programs and working alongside other investment professionals in the co-op program, being introduced to it. For my studies, I said this is really interesting. It's very intellectually stimulating. You get to learn lots of businesses. Instead of maybe going back to run the family farm, maybe I'll put that on hold for a little bit. So it's been a few years. I've been putting that on hold, obviously, and maybe Mum and Dad hopefully someday expect me to return. But so far, the long vacation is extended and I've really enjoyed it. I think investing has been just an amazing time. If you're interested in learning new things, there's always something out there and I'm sure we'll talk about some of those subjects today.

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Emily Anonuevo: Absolutely. And you're definitely doing something right. Like I said, you've been with Fidelity close to 20 years. You're a portfolio manager and director of research. Joe, for the new investors on the line, can you just briefly explain what your both roles entail and your responsibilities?

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Joe Overdevest: As a portfolio manager, as you mentioned, I run money, essentially picking stocks in the Canadian market in particular for pension funds, endowments in Canada and actually globally as well, not just for Canadian clients. For the Global Natural Resources, it's a retail mutual fund I run alongside Darren Lekkerkerker. Essentially what we're doing is we're meeting CEOs on a daily basis. Every 30 minutes of business day, there's a CEO meeting happening at Fidelity. We're talking with lots of our investment analysts, our credit analysts, global research analysts who are doing asset allocation, deciding what are the best stocks for investors. It's a very encompassing experience, lots of information, and we want to drill it down to the best of breed in Canada or global, whichever portfolio we're focused on is really our job of portfolio manager.

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Director of research: I work alongside nine extremely talented Canadian analysts. They do an amazing job. Essentially, my job as a director of research is to make sure they have the tools to do their job. Because they're so talented, I just need to make sure there's nothing that slows them down from picking the best stocks for our clients.

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Emily Anonuevo: Fantastic overview. Thank you, Joe, for that. Now, before we get into the crux of our conversation, some main investment themes investors should be focused on. I want you to speak to our audience a little bit about how the Canadian markets have fared this year. It looks like it's on a positive upward trend, obviously different than this point last year. So how are the Canadian markets looking like, Joe?

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Joe Overdevest: Canada, Happy Canada Day early on. Happy Independence Day as well for our neighbours. Canada should celebrate. We're one of the best markets in the world right now from an equity perspective. And obviously, currency is doing well. Why that is is because of a few big buckets that really drive our markets and its financials. The Canadian banks are doing very well. They put a lot of reserves in place. Essentially that means is when we were in 2020, they didn't know how bad things were going to be, so they are very conservative and put a lot of money aside for potential losses. So far those potential losses are less than they expected. And if anything, the general talk is can they maybe do buybacks? Can they maybe do dividends if the government allows it, the regulator in particular?

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Also a big help to the market has been energy and resources in general. Copper, oil and gas have done very well. Again, as we're opening up the economies of the world, one of the biggest beneficiaries is commodities, because as we move out of our homes, out of Zoom, we sometimes drive a car, we may fly or we may start building and all these things involve commodities. So those are the two probably biggest lifts we've seen helping the Canadian market and I'm sure we'll talk more about them as we go forward today.

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Emily Anonuevo: Absolutely. I'm glad you mentioned the government support and the commodities because I want to … that leads me to my next question. Like I said off the top in my intro, Canadians are riding this wave of optimism, right? People are getting vaccinated. Provinces are opening up and we're travelling again. But there are still concerns ahead for the second half of the year. Joe, what would you say are the three main investment themes investors should be focused on when it comes to the Canadian markets and the reopening of our economy? If you can break it down to three main topics,

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Joe Overdevest: Emily, I think this is a very good point we should talk about. Right now … before it's kind of the dream phase, we're hoping we're getting out of this, we're hoping we're all moving again. The dream is almost over. We're going to start waking up. We're going to start deciding, are we going back to the office five days a week, three days a week? What is our normal life as we get hopefully past COVID? And so what I think number one theme is earnings are really, really important. A lot of stocks have moved up, but the next, say, at least 12 months or even two years, we're going to find out very clearly where earnings didn't go up as much as maybe the market thought and those stocks will start falling off, or people are too punitive on certain sectors as well, that we may still use online shopping and everyone thinks we're never going to use online shopping again, certain things are been changed, maybe forever. So earnings will really, really matter. I think we really have been sharpening our pencils to make sure where are the best companies out of this because behaviours aren't always exactly what you think it is. And a lot has been changed with the pandemic and certain behaviours maybe forever changed.

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Number two would be commodities. I'm glad we talked about that. As we move out of here, there's certain commodities that are definitely benefiting from it. As I mentioned, copper and oil and again, we kind of mentioned a little bit but we can talk about this is that also what's happening in the commodity space is ESG and carbon neutral is a focus. Well, ironically, if you look at carbon neutral, copper should be a beneficiary. Electric cars in general or any kind of electrification needs more copper. Oil is actually the opposite. Longer term, if you want to go to a carbon-neutral economy, generally oil will face more headwinds. But the more interesting thing is, as we get there if no one spends money on oil drilling because of lack of investor demand, government regulations and supply starts coming off but our demand hasn't come off yet, you could see actually oil stocks in particular do better than you think from now to until whatever in the future that maybe a more substantial demand headwind shows up. So number two would be commodities.

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Number three would be, of course, there's been a huge amount of fiscal and monetary policy that's been injected into the system because there was a huge amount of stress on peoples' jobs and peoples' businesses. As time goes, we're taking that away slowly. What does that do for, say, debt markets? What does that do for equity markets or just in general, individuals? You're taking away sometimes unemployment benefits, sometimes small business loans, and so the rubber will meet the road on that. So, again, number one would be earnings matter because now we actually have to execute. Number two is commodities. We're seeing definitely more demand in the short term as we move out of this for commodities. And number three would be as these policies for fiscal monetary policy get lessened or taken away, we have to understand there's definitely going to be some ramifications in the markets for that.

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Emily Anonuevo: Fantastic. Three themes there and a lot to unpack, Joe. If I can go back to your second theme of commodities and you touched upon the headwinds traditional energy is going to face. If you can just expand on that and let our viewers know how ESG is influencing your choices and how that landscape has changed from the last year. If you can expand on that and share insights.

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Joe Overdevest: ESG is early innings and it's definitely something that's developing. It's something, I guess as an investment professional, we are spending a lot of time on this because there's opportunities and there's definitely threats depending on what sector you're looking at. Even with oil and gas, there's opportunities, there's threats. Over the last little while, we've been doing a lot of work on carbon sequestration, essentially taking carbon and injecting into the ground, in some cases, storing it so it never comes out into the atmosphere or actually putting it into oil and gas well, so oil could come out the other side, essentially. So you're using it to actually develop more oil as well.

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So just because there's a lot of headwinds, there's also going to be opportunities. Again, one of the biggest things for our oil producers in Alberta, they've come together and made a goal to be carbon neutral. One of the biggest things they're trying to focus on is carbon capture and working together to build the infrastructure for that. So I think it's very dangerous to write certain things off as this is good, this is bad. We live in a very dynamic world. I can remember a number of years ago, everyone thought oil was forever going to go higher, we were going to run out of supply. Then all of a sudden technology changed and we found a whole lot of oil in Texas and places called the Permian. So right now it looks very daunting to get to carbon neutral but if technologies change or behaviours change, that could also come as a big surprise maybe for the market.

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One of the biggest things, I think, for the oil and gas companies is they are embracing it. So it's not just investors. We're definitely hearing it from our pension clients. We're hearing it from our own investment team. We're hearing it from the CEOs. We're also hearing it from the governments. And that's the thing where this is happening. Even if one part of that chain doesn't want to adopt, the things are still moving on. One of the biggest things a lot of these oil companies have to at least adapt to is carbon is not very welcome. So you have to do something with the carbon and essentially carbon capture or some kind of technology. There is definitely a lot of eyeballs on it to make sure there's a solution.

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Of course, there's alternative energies. We're very flexible. We do a lot of work on solar. Hydrogen's probably a little further out. Wind and hydro dams are obviously more current levels and in some cases actually very competitive with oil and gas. So I think there's a lot of work to be done there. But again, I would say just watch we don't write off certain sectors because in the meantime, if we don't spend money on oil and gas drilling, the supply might go down and demand doesn't really move too much in the short term, you could see some tightness that may surprise people.

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Emily Anonuevo: Okay, excellent. Before we go on, I wanted to pose some viewer questions here that are coming in, Joe. We get a lot of questions on real estate. One viewer wants to know your thoughts on real estate and specifically does it need to slow down for economic growth in Canada to be sustainable?

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Joe Overdevest: Real estate, there's a few buckets there. I'll probably answer all of them. I think they're probably asking more about real estate being homes, but I'll give you the easier ones first. Real estate, there's different groups. The first one probably would be office. It's probably the one that's in transition. There's definitely some companies have already announced we're not going to back to the office five days a week. That's a headwind. You have to watch because a lot of those projects are already in the pipeline. They're very big projects. In some cases, these real estate projects have a lot of debt on them and they didn't plan for a pandemic and a change in office behaviour. Again, two years ago, no one would ever have thought some of these major corporations would say a certain number of employees can work from home.

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Another bucket is industrial. There's a huge demand for industrial real estate in the last two years. Industrial real estate would be like people selling stuff online and they just need storage. Sometimes it's servers for computer companies and software companies and it's just industrial real estate and that has have been a big beneficiary the last little while because as you can imagine, software servers and especially online shopping has definitely grown.

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Retail still seems to be in demand. It's amazing that people still like shopping. It's one of those things, some of these people like to paint the brush. We'll never go out again; we're only going to do online. The data early on from other countries that we use our Fidelity research globally is that people still like a mixture. They still enjoy going to the mall. Now, again, if you have what they call a D-level mall or C-level mall that's not very well regarded with not great stores, I think you have some headwinds there. But high level, what they call A-level mall, is still in demand.

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Lastly, is homes in Canada. This is very interesting because the pandemic essentially opened up an arbitrage. The most important thing is what I just said. Some people had in their mind, I'm only going to go to work five days a week for the rest of my life. I want to be with my family and that's very important. So the time I commute is very, very important. I want to close that. All of a sudden you tell that individual maybe one, two or three days or five days a week you can stay home, that opens a huge arbitrage. They're like, well, I was only living in this big city in Canada, which is very expensive and smaller homes versus what I could get in the suburbs because of that commute. If you open that that up, that time arbitrage, I'm willing to buy that house that's in the suburbs or just further out. So some of that's going on. It's really just a reshaping of housing value as opposed to, oh, the prices are going up. Few years ago we had more speculation in the market and it was more in the bigger cities. Now it's actually more spread out, which is generally healthier.

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The other thing too we have to keep in mind is really the borders, for the most part, were closed. I can imagine places outside of Canada ... I know we all are dealing with different things with COVID but in general terms, probably Canada has actually been dealing with it less than other countries. When our borders open up, I can see immigration coming, which will actually be a further drive of demand for home value. So there's a reason this is happening. It's not just speculation, but it definitely bears watching. Obviously, interest rates are very low as well.

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Emily Anonuevo: What a fantastic overview there. When investors think about real estate, they may only think about home real estate but like you just mentioned, commercial, industrial, retail, all these parts are going to be affected in the next 6 to 12 months. Joe, more questions rolling in. I want to get to it. One viewer is asking, lots of noise about whether we're in a bubble or not in a bubble. The impact of the pandemic, if it continues, as a portfolio manager in this type of environment, how does your process help to monitor the investment landscape? And how far in advance do you look?

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Joe Overdevest: We look as far as we can possibly go. I would say from a stock and from a stock market perspective, you have to embrace your own ignorance. It gets foggier the further you go out. Calling bubbles is not easy in terms of bubbles of a stock or bubbles of a market. We really want to impart on investors, we're trying to not own the market. We're trying to own the best of breed of Canada, the best, say, 50 companies in Canada or globally, depending on who your portfolio manager is. We're not looking to make a bet on the market. We're looking to invest alongside great companies.

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Sometimes I just remind people that there's all this noise — it's not noise, it's true, COVID — if we go back, someone's talking about interest rates, someone's talking about inflation. We go back further, someone's talking about years ago, something going on in the Middle East, something going on in North Korea. So I just remind people, all those things, all these macro concerns you have make a lot of noise in newspapers, which is good. That's how you sell a newspaper...if I told you something's going to happen in the Middle East or inflation's going to go up or down, are you less likely or will you buy no Apple products next year? And you're like, oh, no, I still want my iPhone. I'm still going to listen to Apple music and I'm still going to buy movies on Apple TV. Exactly. That's a great business, right? You can debate the stock price itself, but that's a great business. Dollarama. There's a lot of stuff going on. As Canadians do you really think you're going to buy no goods from Dollarama for the next year if something happens in America or something happens in South America or interest rates go up even 200 basis points? Probably not. So again, what happens, what drives individual stocks is not usually what happens in the macro concerns that make the newspapers. We do a lot of work on the macro stuff, but we really drive down to: What are the great companies? What are the great CEOs that we want to invest alongside? And let's focus on those.

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Emily Anonuevo: I'm so glad that you mention that concept, Joe, about speculation and not betting on the market but betting on good quality companies. That leads me to my next question about just the value of advice from financial advisors and how they help investors navigate through that market noise like you just mentioned. They take a very holistic approach to one's finances. Can you talk about the advantage there?

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Joe Overdevest: Myself personally, I put in this perspective. I embrace my own ignorance and I kinda know what I'm good at and what I'm not good at. Emily, I'm not good at cooking, so I'm not going to cook, right? But more serious aside, when I go to build my house, I pay for good service to build a home. If I go do my accounting for my taxes, I'm not doing them because I want the best in terms of service and I'll pay up for it for that service. Because I know the flip side of that is a lot of heartache and probably a hit to my chequebook if it doesn't go well. I got some good advice from a very successful entrepreneur a number of years ago. He said, "You know, what I do well is my business. That's what makes me money. I just focus on my business. I have financial advice I pay for." And he reminded me, you get what you pay for. So if you want dirt cheap, that's fine, but don't cry later. But if you want good investment advice, just like any kind of advice, pay up for it, judge it, watch it. But he said, "I don't read the financial news. I don't read the stock market's news. I don't look at tickers. I don't worry about it. Because you know what? I focus on what my moneymaker is, which is my business, and it gives me more time with my family and it relieves a lot of stress in my life."

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I would say hopefully we all can come to that and if someone who can do financial investing on their own and do an amazing job with it, by all means. I think we would focus same way, if you can do your own taxes and build your own house, go for it. But I think you really have to watch that if you build a certain amount of wealth doing something, it's sometimes...I know myself, I always watch, does that individual know the same expertise in that other field? You can't always assume that. When you look back, I think advisors, there's a number of things with taxes. Should I roll this over? What about my mortgage? Can I take this out? What is an RSP? What are these grants? What is an RRSP? There's a lot of big things.

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But one big thing I would say, if you just look at an Excel sheet and say I'm going to have 10% return for 30 years. What if the advisor ... I do it on my own and it's not 10, it's zero or two? Zero, two, five, ten, there is a big, big difference. So for an advisor you should be looking for, do they give me decent returns? And number two, do they keep me in the market? Because one of the toughest things a lot of people don't realize, if you do 10% on an Excel sheet for 30 years, but all of a sudden for four years you're in, two years you're out, four years you're in, two years you're out, the returns are massively different. So if you can provide strong financial advice to someone and keep them in the market, it's a huge benefit.

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Emily Anonuevo: Absolutely great message there about trusting the experts. Everybody's in different stages of their lives but if it's the route you want to take, trust that financial advice. Joe, another question coming in, Vera wanted you to ... you mentioned commodities and trade. They want to know to what extent does the Canadian dollar and currency play into your investment process?

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Joe Overdevest: The Canadian dollar is one of those things we look at. I think it's kind of the 80/20 rule. There's probably a lot of noise about currencies in general. Again, we go back to usually strong businesses overcome currency. If your business is susceptible to currency, you're not in a good business. So it's something we look at. Generally the Canadian dollar, probably for our audience, usually does well and our commodities are doing well. It helps our trade balance in particular. Usually our Canadian dollar, the number two is how we're doing relative to the U.S. Both of us, both countries happily are actually doing decently in terms of other G7 countries. So our currency is strong but not going off in terms of a very high number versus the U.S. But it's definitely doing well, predominately from our commodity outlook.

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Emily Anonuevo: We have a few minutes left in the show. Joe, just wanted you to summarize, as we sort of settle into the second half of the year. How are you positioned in the next six months and into 2022 to capture as much upside and as little downside?

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Joe Overdevest: I think, Emily, when it comes to the outlook we're really looking at certain sectors are probably going to benefit from opening up. Again, there's these names we've already mentioned in groups like financials, energy. Some are being held back, in terms of financials, just because of the regulator. The regulator says we want to be really conservative. The U.S. recently has allowed them now to deploy capital and give it back to shareholders. That may happen, of course, in Canada. We'll see when the regulator decides that. But you have some very strong balance sheets and companies that have actually done very well over the last period, which was very, very tough. I think you have to watch, though, on the flip side, there are some companies that definitely benefited because of our shutdown that may not see as much growth. And some of that might be the consumer staples, could be grocers.

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Also too, I think the bigger thing we just have to understand that not everything is going to open the same way. Some countries are not going to open as well as we are or maybe the U.S. And so you have to watch for travel and you also have to watch for just behaviours. Not everyone's going to go back to the office five days a week. So certain companies that relied on that, maybe that's offices, maybe that's even just companies that wanted us driving and stuck in traffic and benefit from that. So I think it's very careful to watch. There's definitely going to be some winners and losers. We used the K-shape recovery last year. You may see similar K-shape recovery comments in the next 12 months.

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Emily Anonuevo: Joe, as director of research, I know you've spoken on many occasions about the depth of our Fidelity team, the depth of our research team, but can you just expand on this and let the audience know the edge we have over other financial firms and how that's going to help us pull through 2021 and into the next year?

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Joe Overdevest: Emily, I'm just so happy that we have such a talented investment group. We have 300 investment professionals around the world making my job easier and more importantly, making our investors happy. So when you worry about these things like macro concerns or different kinds of things going on in sectors or technology. Is that noise? Is that something meaningful? Is that something I should worry about? You know that even when you're sleeping, someone around the world at Fidelity of those 300 best professionals is reading research, talking to CEOs, doing research that in terms of the sector, what's going on and deciding what's meaningful, what's an opportunity, and what's actually a real threat.

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It's just so enlightening for us because, again, there's usually just no subject where it's like, you know what, I don't know what's going on there and I don't really have any kind of insights. You say, you know what, let's look into it. Usually you can pull something up on my computer. I can see a note that's already been written about it and some expert around the world says, oh, yes, this is our view and this is a strength, this is an opportunity. And so it really makes investing amazing and a lot of fun but more importantly, it gives us a huge advantage when it comes to a lot of very dynamic things going on in the world.

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Emily Anonuevo: Joe, we're coming to the end of the show and it's been a great discussion. If you can just quickly wrap up those three main investment themes investors should be looking at when it comes to our Canadian economy.

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Joe Overdevest: I would say number one would be earnings. We really have to watch how earnings are going to be coming through. Number two would be commodities. As we move forward and open up these economies, there'll be more demand for them, which is positive for the Canadian market. Number three, we have to watch that monetary and fiscal policy will be pulled away slightly on the margin, which will potentially have some ramifications in interest rates or other parts of the market.

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Emily Anonuevo: Joe, thank you so much for joining me today. It was a great discussion. Thank you so much for sharing your insights and your time with the investors on the line. I'm sure they appreciate it as well. Thank you.

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Joe Overdevest: Thanks, Emily.

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Emily Anonuevo: We have a fantastic line-up for you coming this July. Next week, Fidelity sector strategist, Denise Chisholm, will be on the show. She will share her insights on inflation, the growth of the U.S. economy and what sectors she's keeping an eye on.

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Then on July 15th, we welcome Chief Investment Officer at Fidelity Canada, Andrew Marchese, to the show. He'll share key investment themes as we settle into the second half of the year.

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Then the following week, live from London, England, we'll have Fidelity International's investment director, Tom Stevenson. He'll share the latest updates on the European economy and share his perspectives on the markets there. Just go to fidelity.ca for more information on how to register for those webcasts. We also have replays of The Upside on YouTube. Just search Fidelity Canada, click and subscribe. Thank you so much for watching. Take care, everyone, and I'll see you next time on The Upside.