

Capital Market Expectations 2024 and Beyond

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About our capital market expectations



Using a 10 year
outlook, we review the expected returns
and risk of investable asset classes

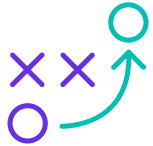
Equities | Fixed income
Currencies | Alternatives



Capital markets expectations are
used to set the Strategic Asset
Allocation, which forms the basis of
our long-term strategic mix for
portfolios and funds. Portfolio
managers then tactically adjust.

Capital markets expectations summary

Our expectations over the next 10 years...

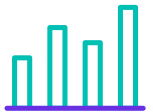


Expected returns for fixed income have become more attractive; recent volatility expected to subside

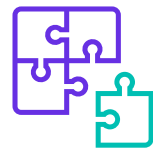


Global equity returns expected to revert to longer-term averages and outperform bonds

EAFE area equities look attractive



Emerging market equities expected to outperform developed market equities, but with additional volatility



A diversified & dynamic approach the most likely path to stable returns

Our 2024 Capital Market Expectations (CMEs)

Our expectations over the next 10 years...

Asset class	Expected return	Volatility	Past 20 Year Annualized Return
Government of Canada Bonds	3.9%	5.2%	2.8%
Canadian Investment Grade Bonds	6.0%	6.4%	3.7%
Global Bonds Hedged	4.8%	5.0%	3.5%
Canadian Equities	7.2%	14.9%	8.0%
US Equities	7.4%	13.5%	9.8%
EAFE Equities	8.6%	13.4%	6.4%
Emerging Markets	8.6%	16.4%	7.7%
China	8.1%	23.8%	8.5%

Long-term economic themes



Growth

- Trend-growth
- Structural investment drivers: energy, supply chains, artificial intelligence
- Productivity to rise, but still “average”
- Demographics a slight headwind



Inflation

- Slightly higher than central bank targets
- Stickier services inflation
- More volatile goods inflation
- Deflationary forces of globalization and technology still exist

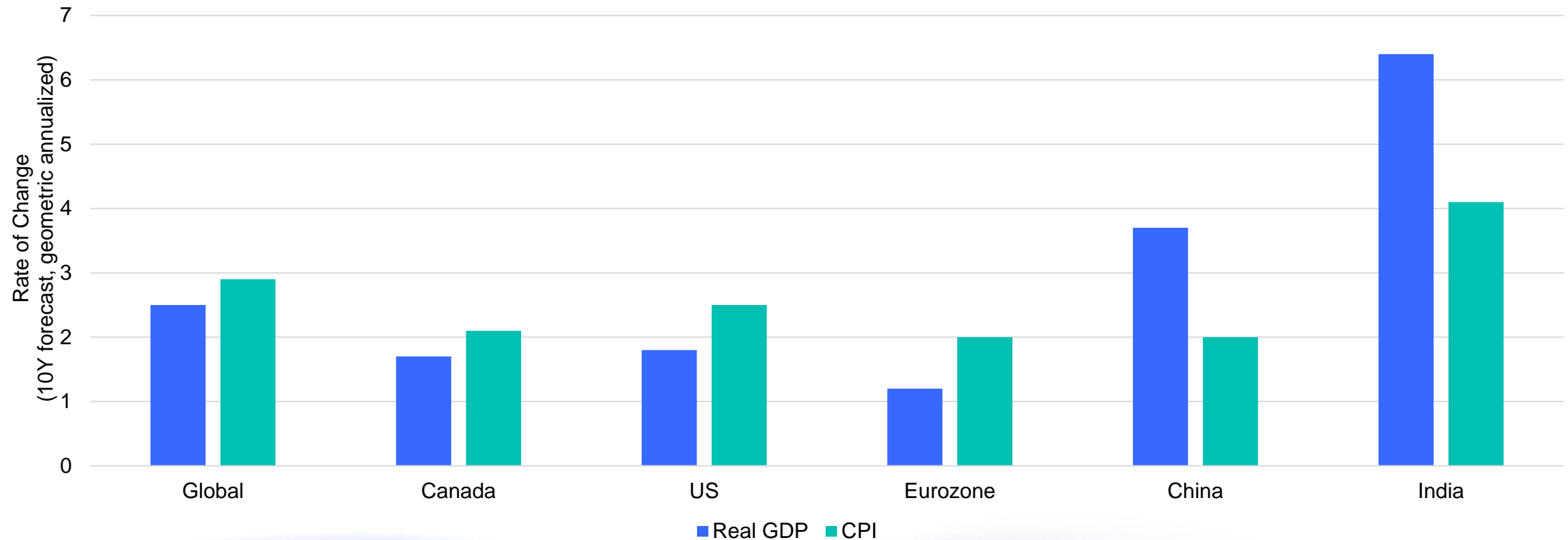


Policy

- Higher policy rates (r^*)
- Central banks may tolerate *slightly* higher inflation
- No signs of fiscal austerity

Macro assumptions

Growth steady as inflation assumed higher



Policy and interest rate assumptions

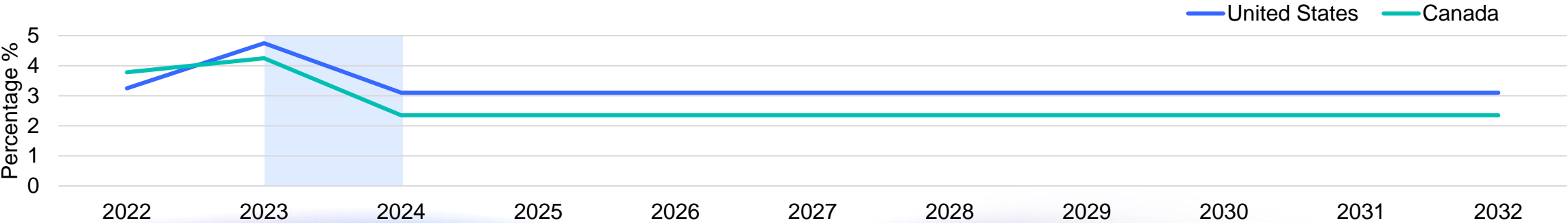
Influences views on fixed income

Canada Yield Assumptions	2023	2024	2025	2026	2027	2028
3M	5.1	4.4	3.0	→		
10Y	4.0	3.7	3.7	→		

US Yield Assumptions	2023	2024	2025	2026	2027	2028
3M	5.4	4.8	3.5	→		
10Y	4.6	4.3	4.3	→		

Periods of stable rates
assumed after 2025

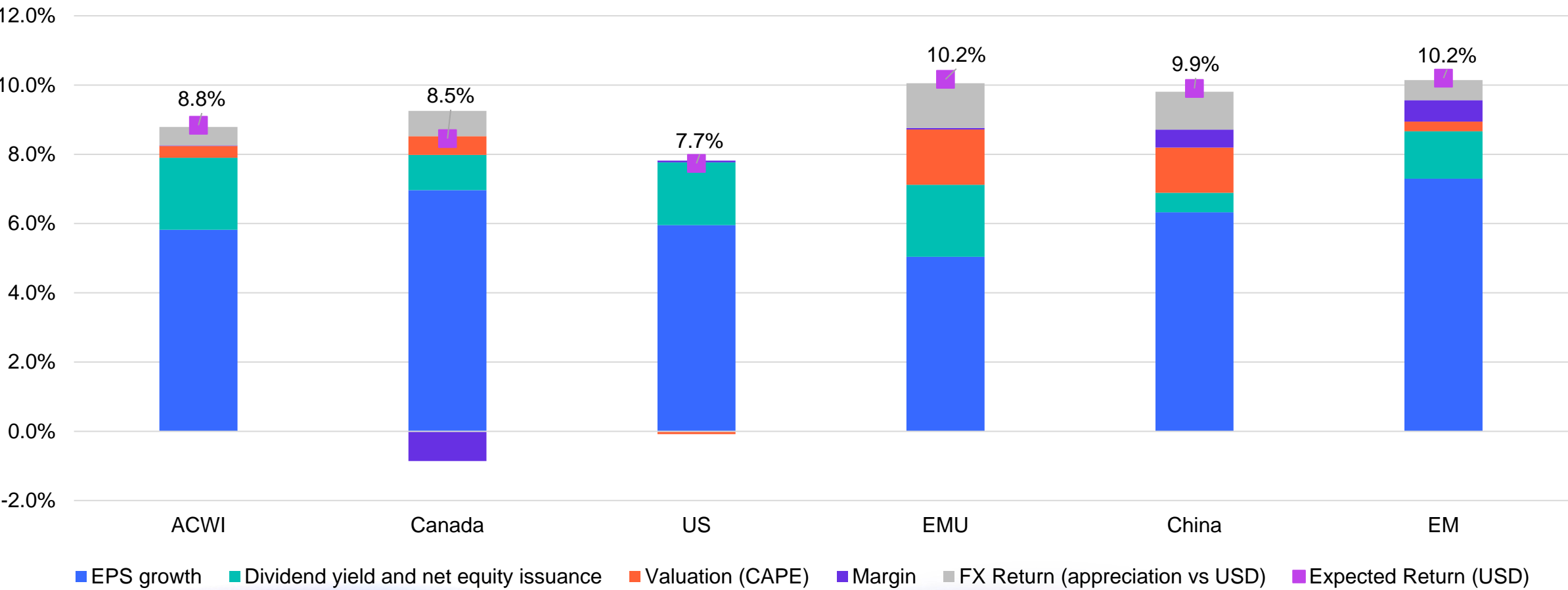
Short Rate Forecasts



Source: Bloomberg, FTIS Forecasts. As of September 30, 2023.

Equities: Returns are driven by earnings growth and yield

Building blocks model: Equity return decomposition



Source: Macrobond, Bloomberg. As of September 30, 2023.

About our capital market expectations



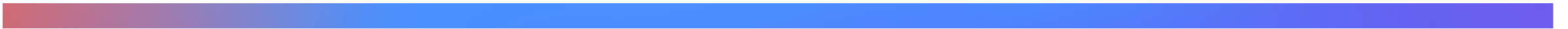
Using a 10 year outlook, we review the expected returns and risk of investable asset classes. This year CMEs are generally higher than last year. Primarily due to higher cash and bond yields as a starting point.



Capital markets expectations are used to set the Strategic Asset Allocation, which forms the basis of our long-term strategic mix for portfolios and funds. Portfolio managers then tactically adjust.

Primary investment themes

Current positioning



Broad portfolio themes

What is driving our outlook and portfolio positioning

Theme #1



Recession risks moderating, but reasons for caution remain

Theme #2



Peak policy, but expect higher rates for longer

Theme #3



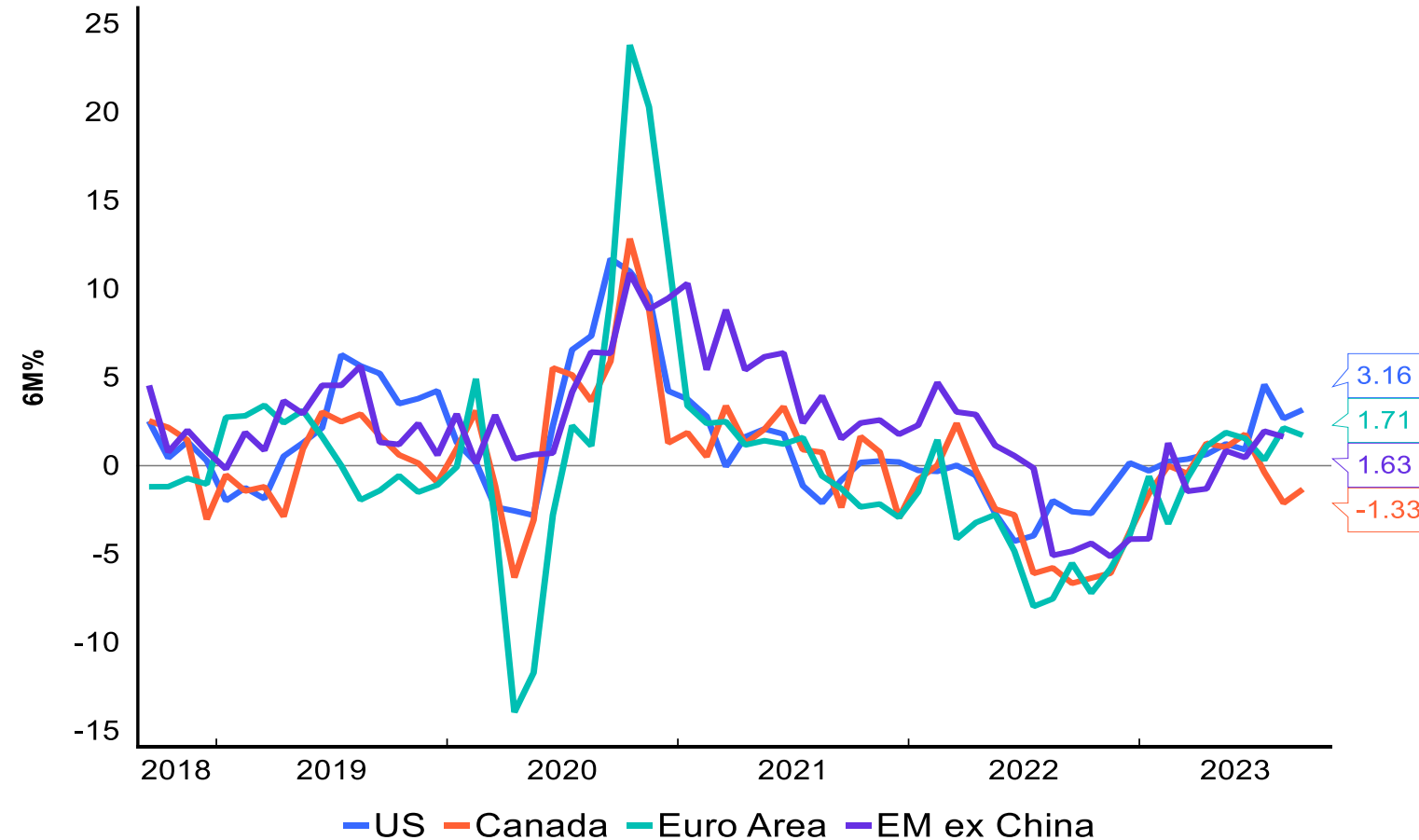
Among the risks, opportunities exist

Theme #1: Reasons to remain cautious

LEIs have recovered but remain mixed

ECRI Long Leading Indices

Data as of September 2023



Source: , Macrobond.

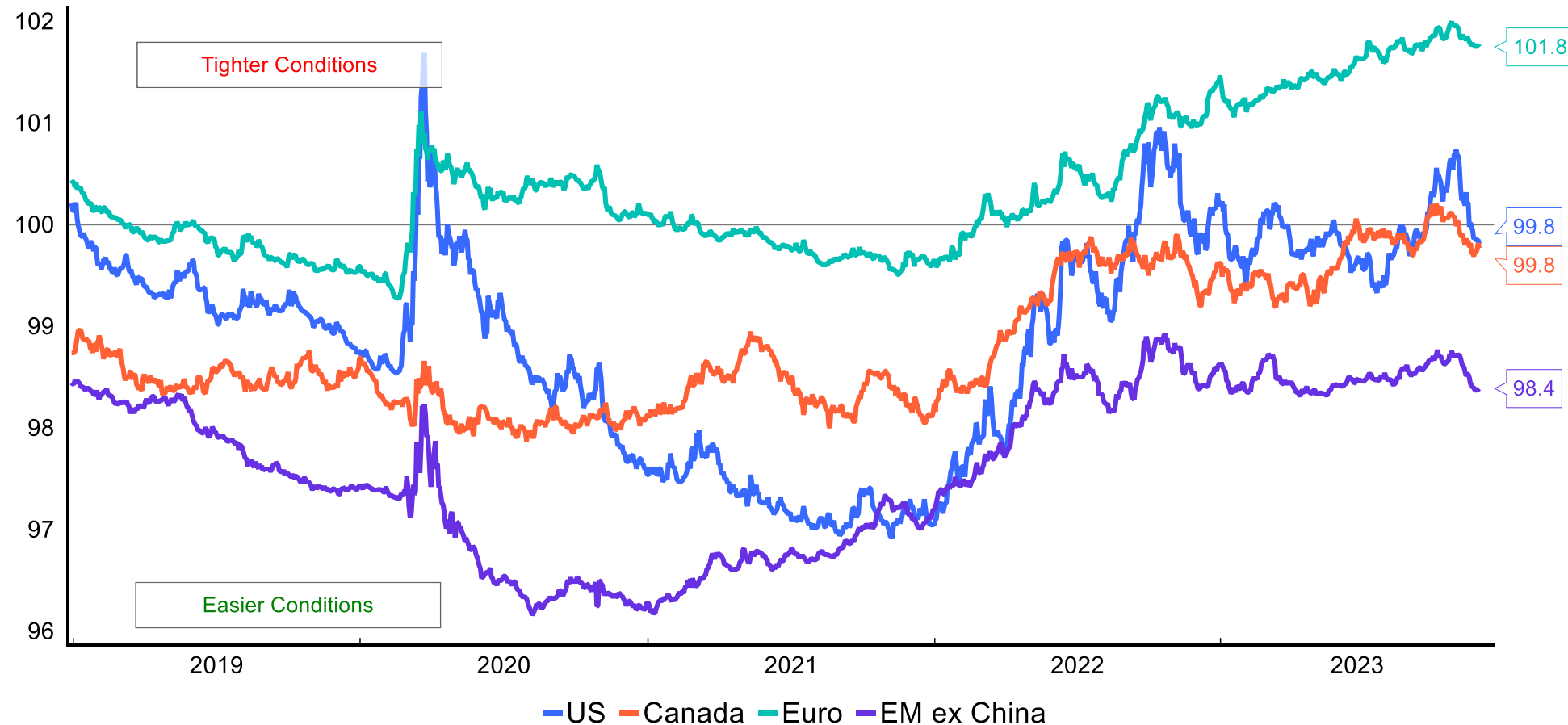
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Theme #1: Reasons to remain cautious

Aggressive monetary policy has resulted in tighter financial conditions

Global Financial Conditions

Data as of 11/27/2023



Source: Bloomberg, Goldman Sachs, Macrobond.

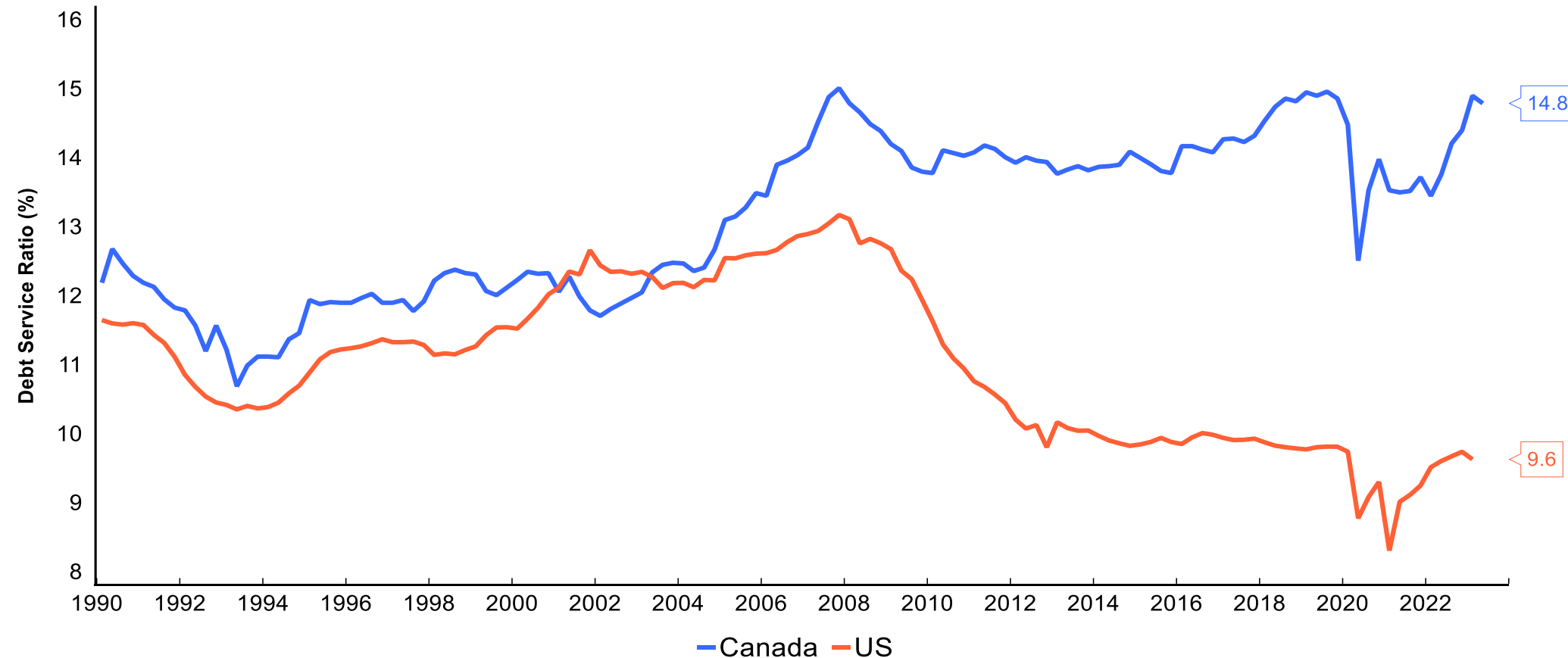
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Theme #1: Reasons to remain cautious

Canadian debt levels suggest more sensitivity to higher rates

Canada vs US: Household Debt Service Ratio Gap has grown significantly larger since 2008

Data as of 2023 Q2



Source: StatCan, Fed, Macrobond.

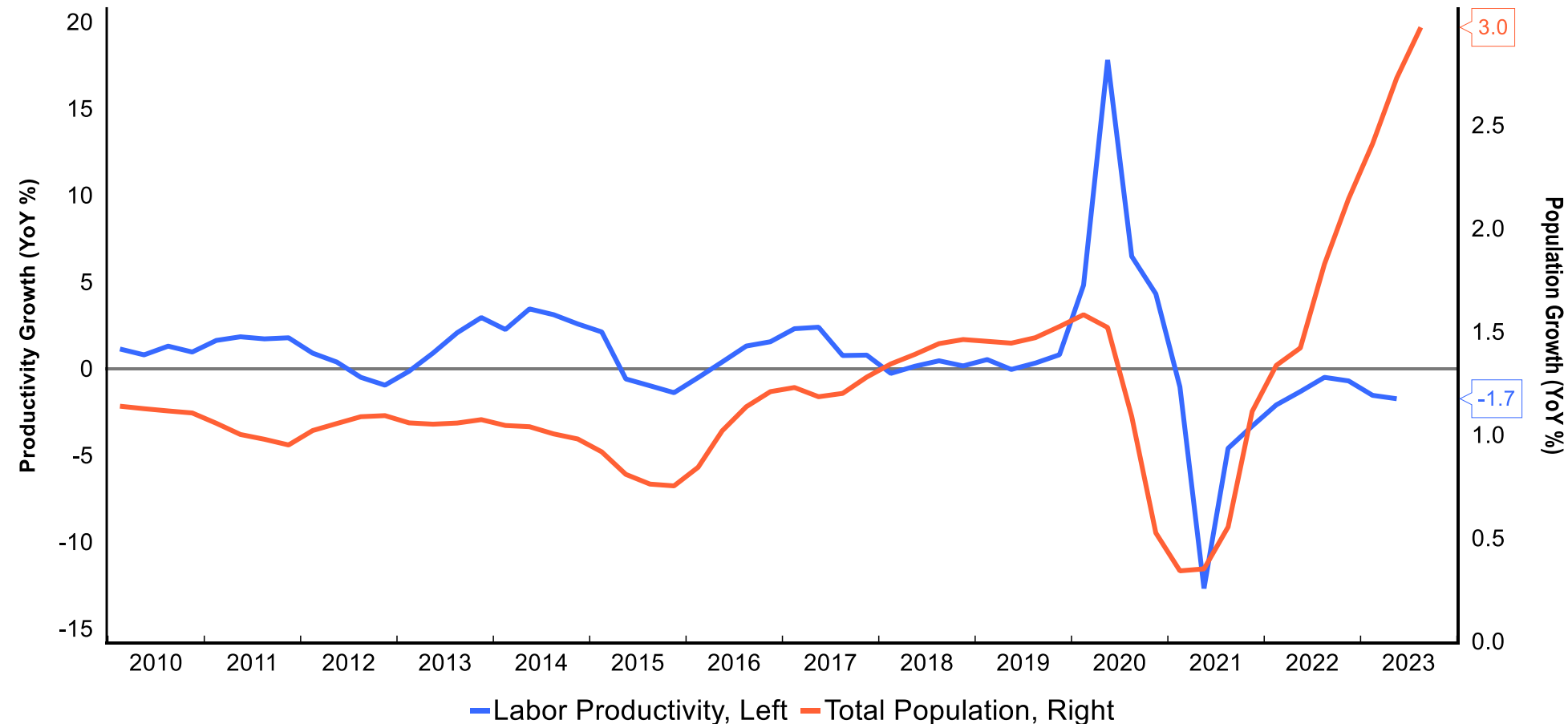
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Theme #1: Reasons to remain cautious

Despite strong population growth, weakness in productivity remains a headwind

Canada: Record-level immigration flows are being offset by weak productivity growth

Data as of July 2023



Source: StatCan, Macrobond.

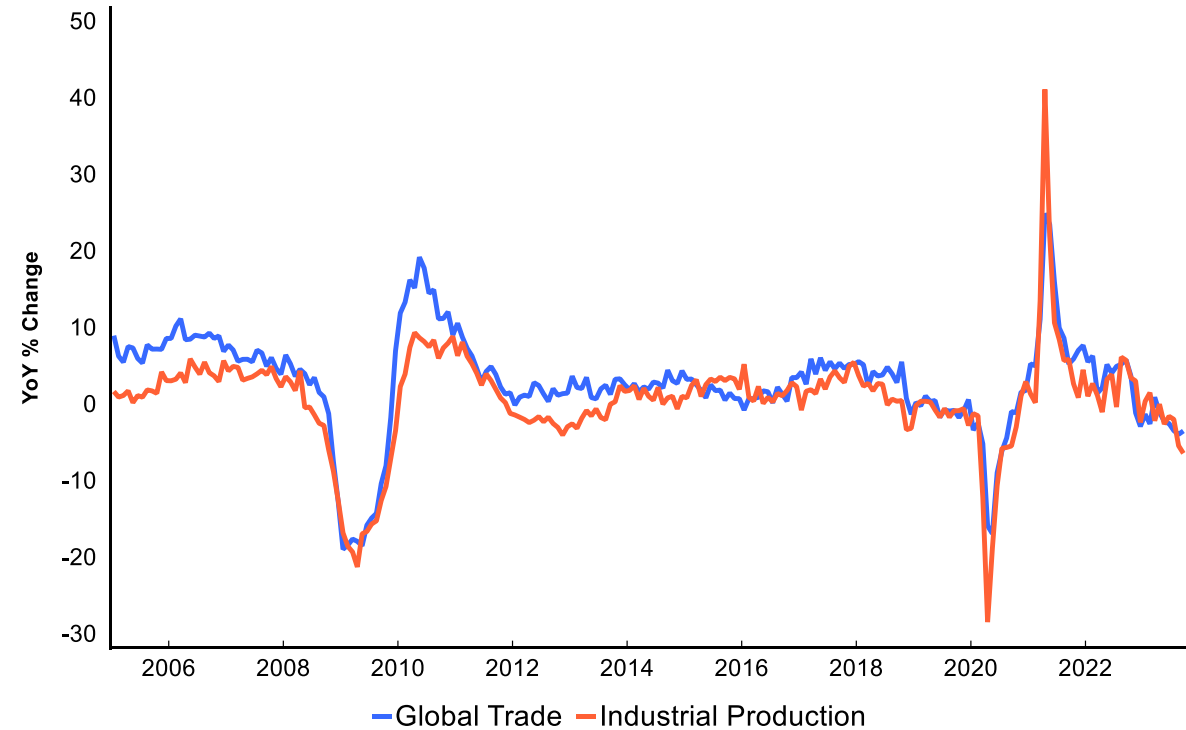
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Theme #1: Reasons to remain cautious

European valuations attractive, but reflect weak economic data

Eurozone: Industrial Production vs Global Trade

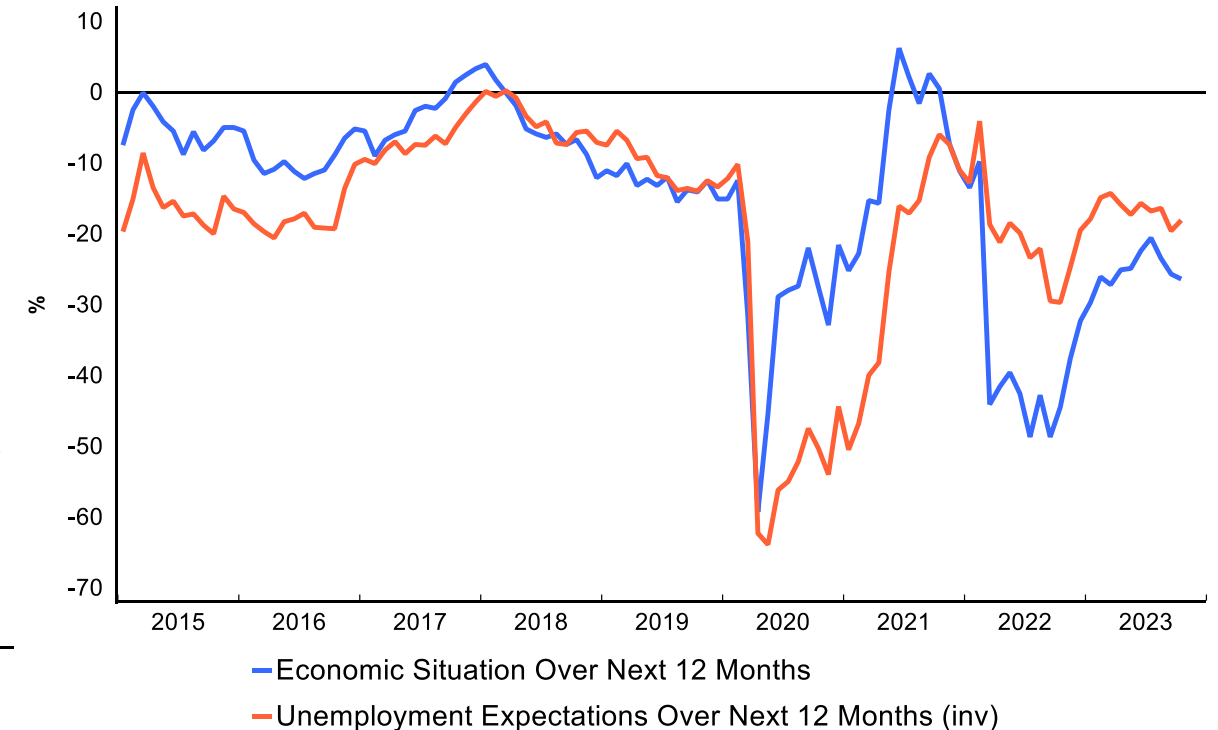
Data as of September 2023



Source: CPB, Eurostat, Macrobond.
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Eurozone: Consumer Sentiment

Data as of October 2023



Source: DG ECFIN, Macrobond.
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Broad portfolio themes

What is driving our outlook and portfolio positioning

Theme #1



Recession risks moderating, but reasons for caution remain

Theme #2



Peak policy, but expect higher rates for longer

Theme #3



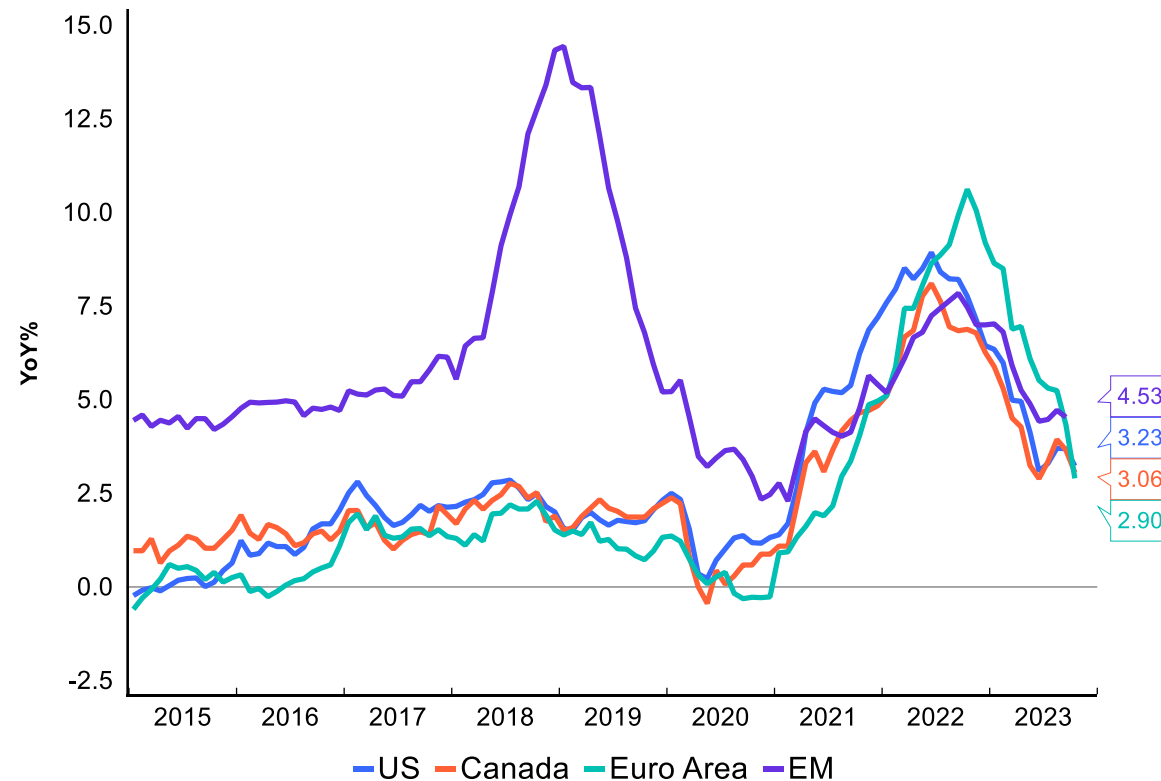
Among the risks, opportunities exist

Theme #2: Higher for longer

Inflation much improved but the last mile is the longest

CPI

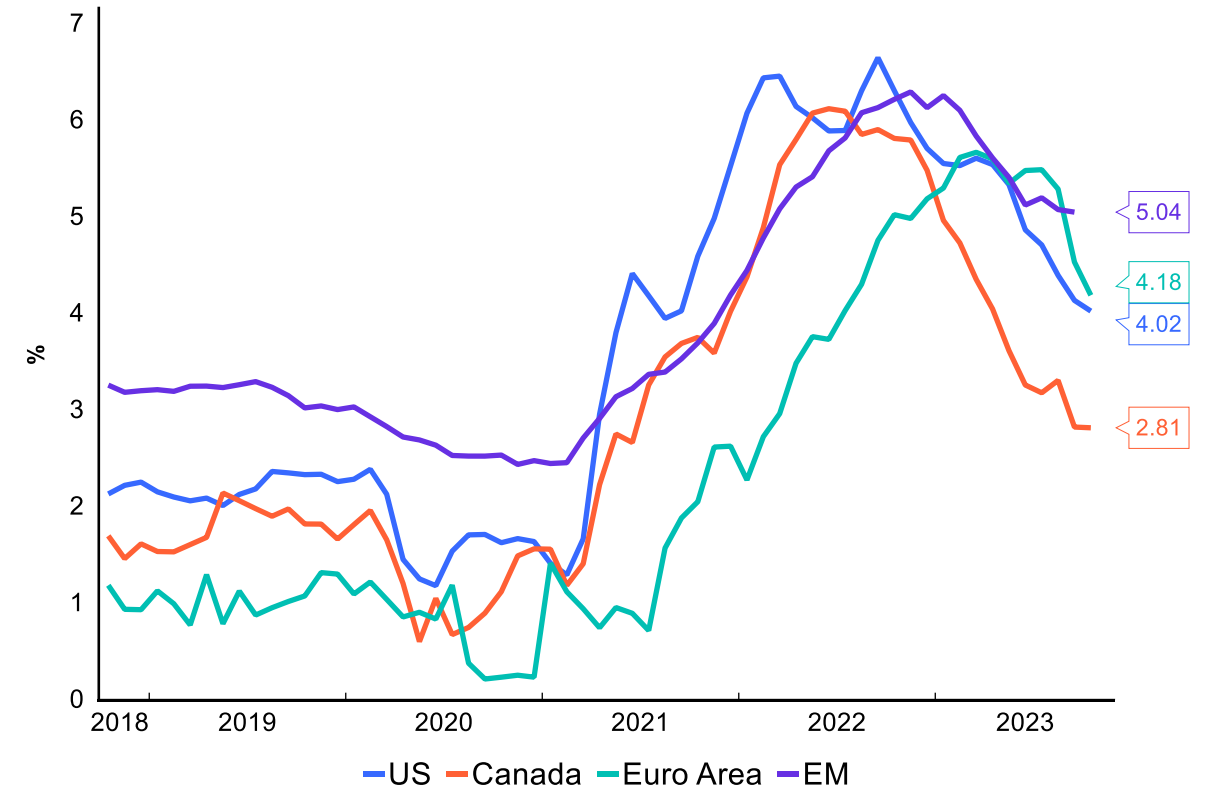
Data as of October 2023



Source: BLS, StatCan, Eurostat, ONS, SBJ, ABS, NBS, Federal Reserve Bank of Dallas, Macrobond.
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Core CPI

Data as of October 2023



Source: BLS, StatCan, Eurostat, ONS, SBJ, ABS, NBS, Federal Reserve Bank of Dallas, Macrobond.
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Note: For Canada, the target inflation rate in the chart represents the mid-value of the target inflation range. The current inflation rates pertain to: US – Headline CPI YoY; Canada- Total Consumer Price Index; Europe - Monetary Union Index of Consumer Prices, All Items; Japan - Core Consumer Prices Index;

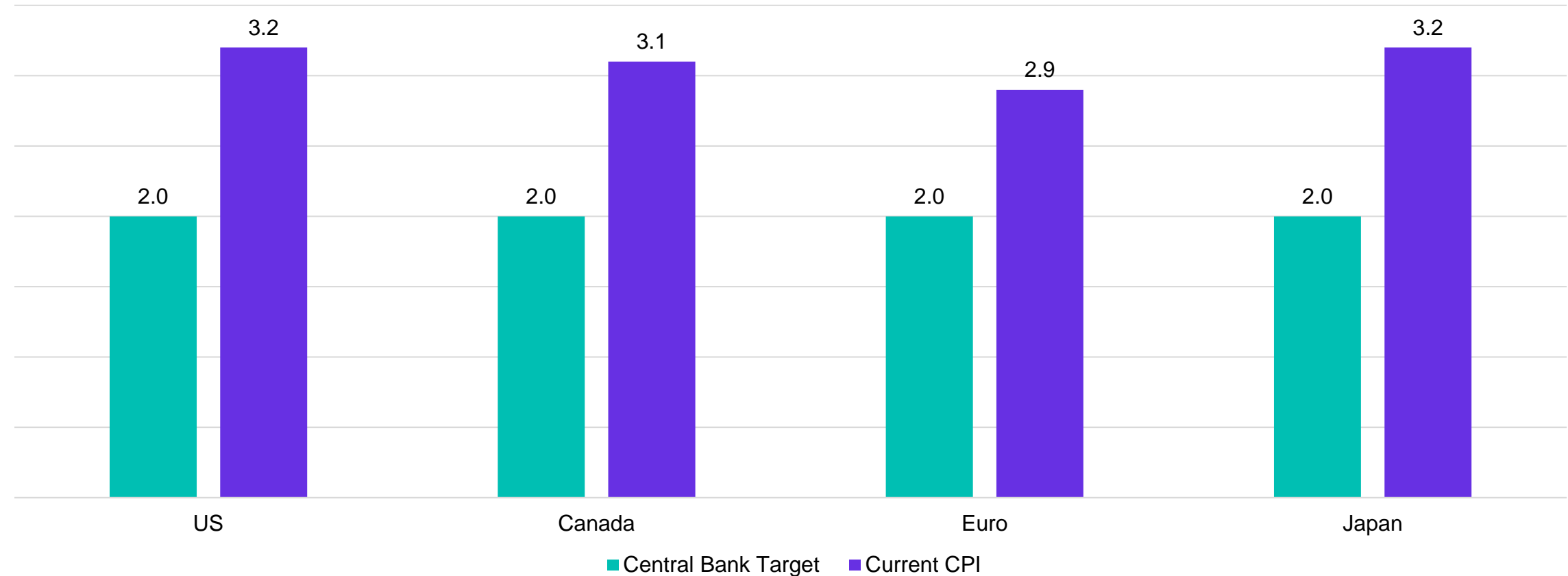
Source: FTIS, Fed, BoC, ECB, BOJ, StatCan, Japanese Statistics Bureau, Ministry of Internal Affairs & Communications (Japan), BIS, Bloomberg, Macrobond.

Theme #2: Higher for longer

Inflation still above central bank targets

Current Inflation Rate vs Central Bank's Target (%)

As of November 28, 2023



Note: For Canada, the target inflation rate in the chart represents the mid-value of the target inflation range. The current inflation rates pertain to: US – Headline CPI YoY; Canada- Total Consumer Price Index; Europe - Monetary Union Index of Consumer Prices, All Items; Japan - Core Consumer Prices Index;

Source: FTIS, Fed, BoC, ECB, BOJ, StatCan, Japanese Statistics Bureau, Ministry of Internal Affairs & Communications (Japan), BIS, Bloomberg, Macrobond.

Broad portfolio themes

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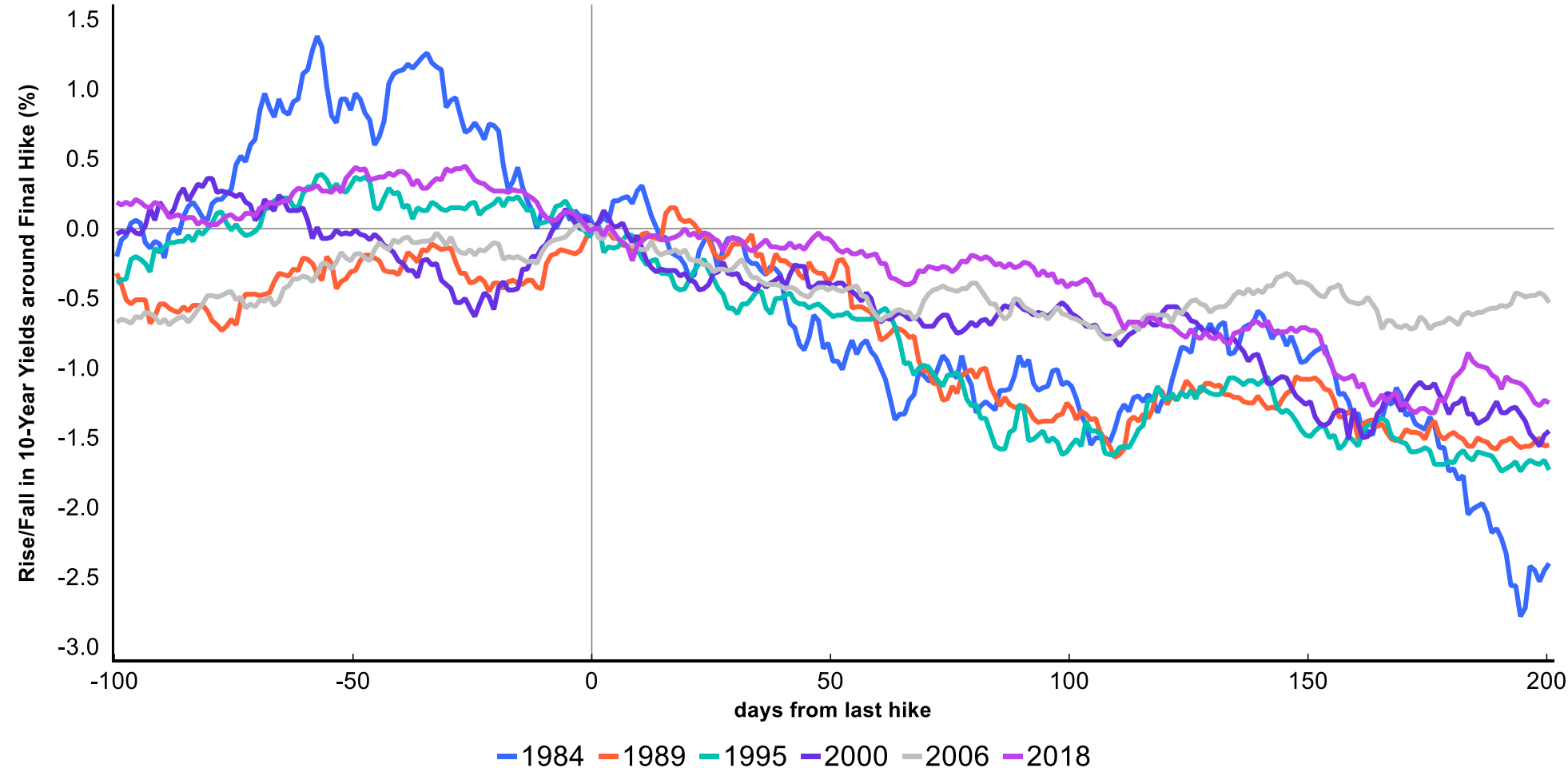


Among the risks,
opportunities exist

Theme #3: Among the risks, opportunities exist

Government bonds tend to rally after last rate hike

Change in the US 10YR Yield from Last Rate Hike (%)



Source: U.S. Department of Treasury, Macrobond.

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Theme #3: Among the risks, opportunities exist

Asymmetry of government bonds is attractive; being dynamic is key

Canadian 10YR Government Bond - Yield to Maturity (%)

Data as of 11/30/2023



Source: Macrobond.

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Scenario over one year

Assuming 3.60% starting yield on 10yr GoC

Target Horizon Yield	Total returns %
+50bps	-0.20
+25bps	+1.71
0bps	+3.60
-25bps	+5.62
-50bps	+7.61

Source: Bloomberg.

As of November 30, 2023

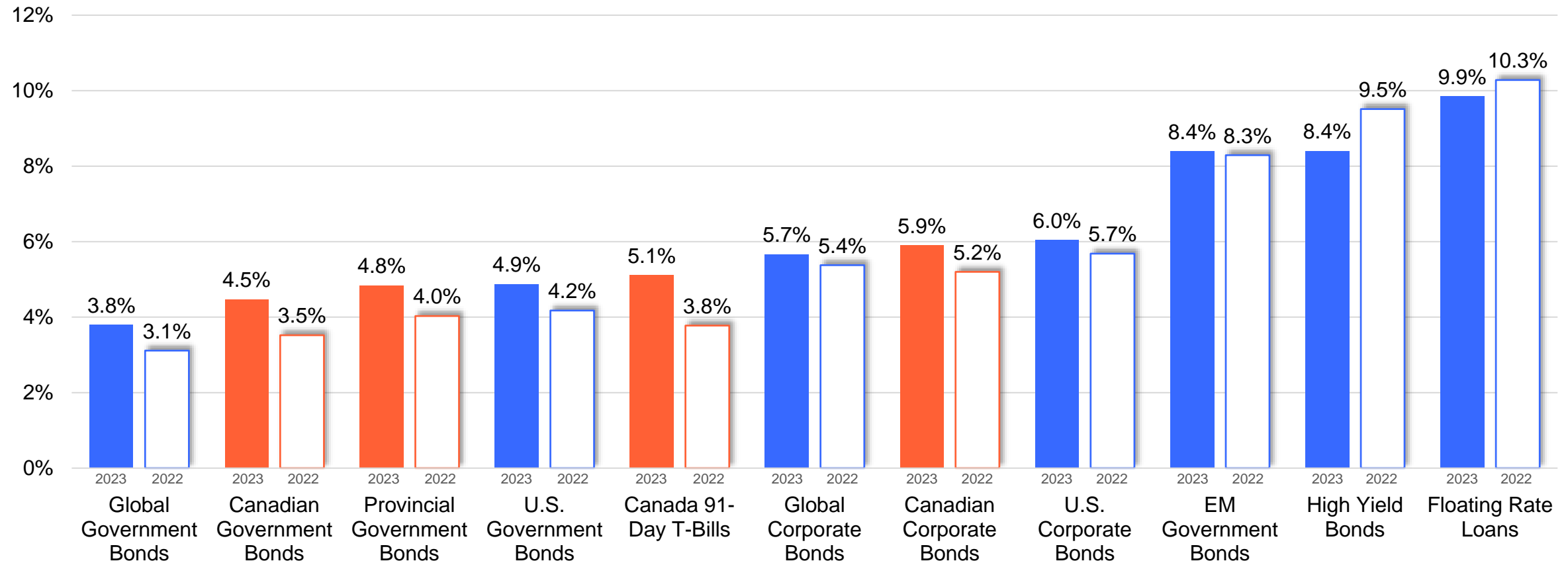
Theme #3: Among the risks, opportunities exist

Yields attractive, but risks remain elevated in higher yielding fixed income

Fixed Income Index Yields - Expanded opportunity set

Canadian assets

Non-Canadian assets



Data as of September 30, 2023.

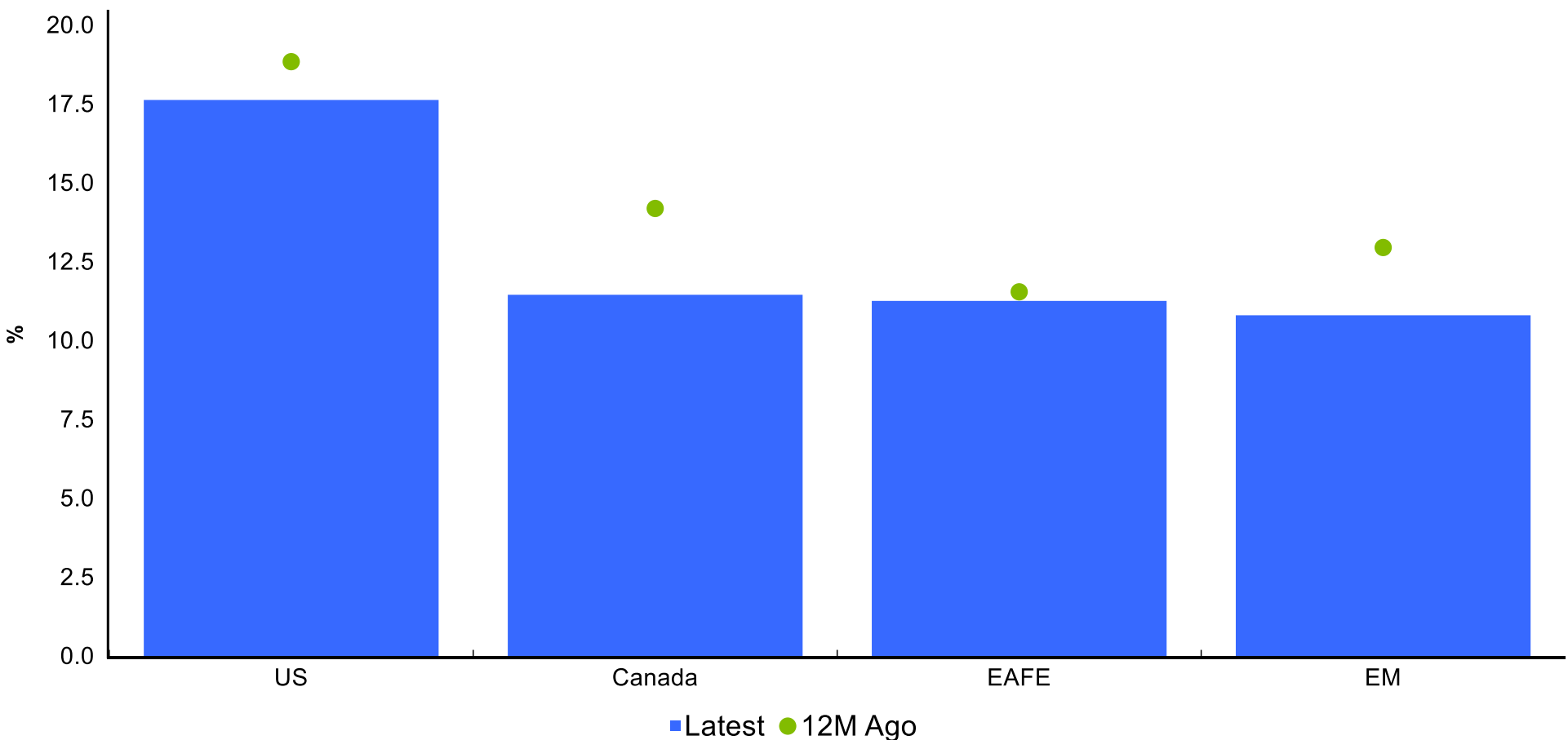
Source: Franklin Templeton Investments, ICE BofA Indices, J.P. Morgan, S&P/TSX, Macrobond.

Theme #3: Among the risks, opportunities exist

Profitability is key metric and the US still leads

MSCI Indices: Return on Equity

Data as of November 2023

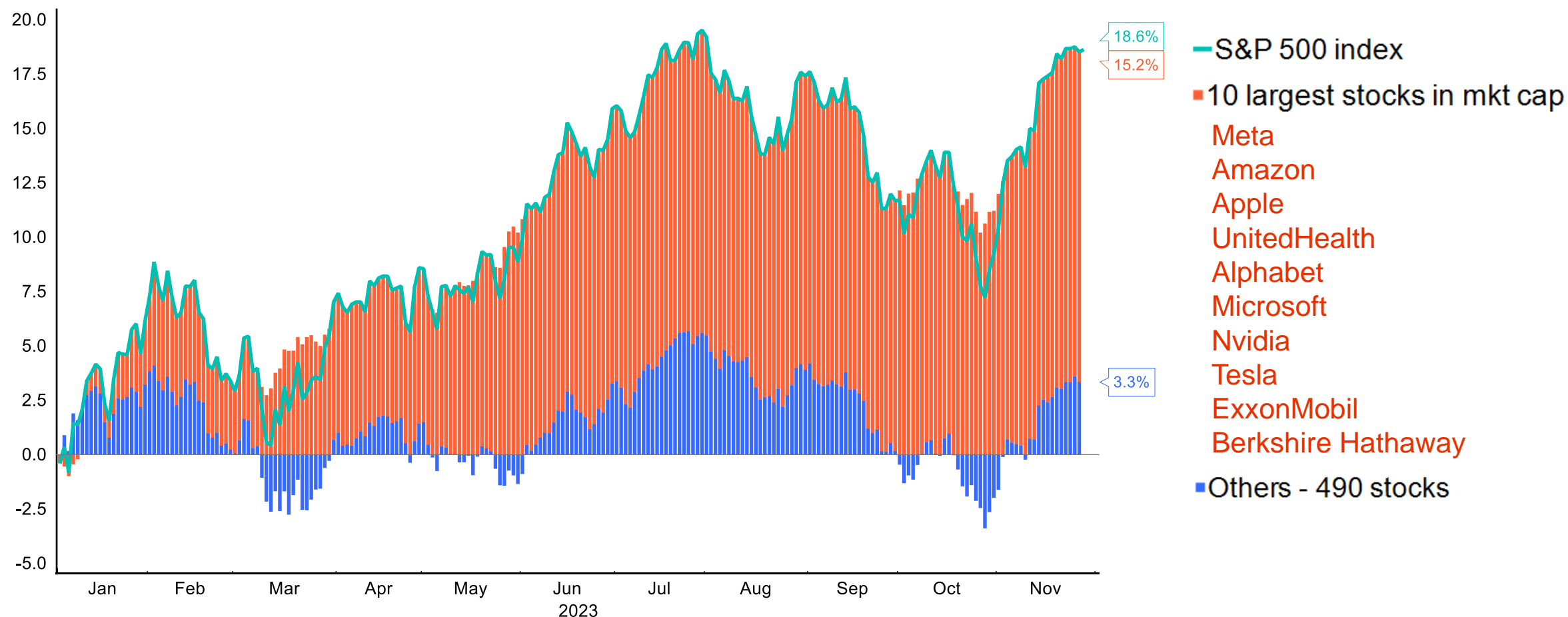


Source: Bloomberg, Macrobond.
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Theme #3: Among the risks, opportunities exist

Market breadth still narrow, but broadening

As of November 27, 2023



Source: S&P Global, Macrobond.

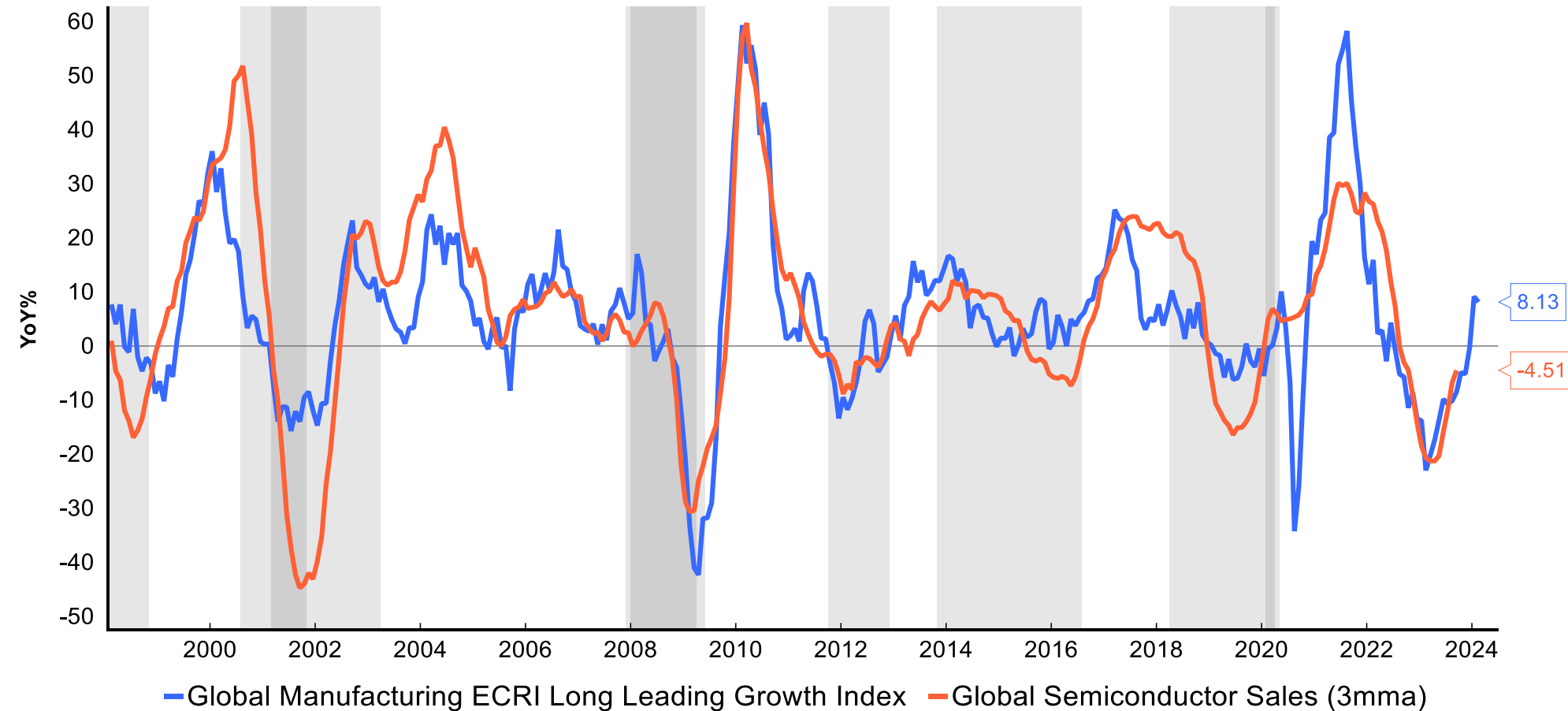
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Theme #3: Among the risks, opportunities exist

EM: continued signs of a manufacturing uplift

Global Manufacturing and Semiconductor Cycles

Data as of September 2023



Source: SIA, Macrobond.

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Portfolio Positioning



**Selectively
adding to
Equities;
maintaining
higher Cash
balances**



**Overweight US
equities and EM
equities**



**Underweight
Canada and
Europe equities**



**Trimming
duration and
prefer higher
quality
corporates**



**Dynamic, active
positioning**

Important Disclosures

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