Target Guidance by Investment Category

START HERE	Investment Category	Asset Class	Target Guidance in Range
Equity Investments	Aggressive	Commodities & Emerging Markets	High
	Growth	Small- and Mid-cap Stocks (Canadian, U.S. and Overseas)	Middle
	Growth & Income	Canadian Large-cap Stocks,[2] U.S. Large-cap Stocks, Overseas Large-cap Stocks & Real Estate	Middle
Fixed-income Investments	Income	Canadian Investment-grade Bonds, International Bonds & High-yield Bonds	Middle
	Cash	Cash & Short-term GICs	Middle

1 Alternative Investments and Stocks trading less than $4 align with the aggressive investment category, but they are not recommended.
2 Large-cap stocks that do not pay a dividend are in the Growth investment category.
Asset classes we don't recommend separately include alternative investments, micro-cap equities and international high-yield bonds.

QUARTERLY MARKET OUTLOOK: **THIRD QUARTER 2020**

Asset Class Outlook

We believe well-diversified portfolios should be built by first identifying a targeted mix of equity and fixed-income investments based on your goals and comfort with risk, and then gaining exposure to a broad mix of the asset classes highlighted below.

Equity Versus Fixed Income (Equity target = Middle) – Given the high level of economic and corporate earnings uncertainty we recommend a neutral allocation between equity and fixed income. A laddered bond portfolio and an above-average amount in cash may help provide downside protection for portfolios when markets are volatile.

Domestic Versus International (International target = High) – We recommend overweighting international equities (including emerging-market stocks). Global growth will likely take a material hit in the second quarter, but output can recover gradually as restrictions ease. International equities look attractive due to reasonable valuations and better relative corporate earnings resiliency.

Asset Class Diversification

Aggressive (Target = High): We recommend adding emerging-market equities, which we think are attractively valued, offer diversification benefits and exposure to secular tailwinds. We remain cautious on commodity investments and don't think investors need additional investments beyond the TSX.

Growth (Target = Middle): We recommend overweight U.S. small- and mid-cap stocks and underweight Canadian small- and mid-cap stocks based on the relative sectoral composition and growth outlook.

Growth & Income (Target = Middle): We recommend overweighting international equities due to the sector composition of the TSX and our expectations for slower Canadian economic growth ahead. Overseas equities are attractive because expectations are low, dividend yields are attractive, and we expect them to benefit from policies to improve global growth.

Income (Target = Middle): Long-term interest rates are likely to stay low for longer until the disinflationary pressures from the slump in economic activity subside. The aggressive-income target is high because we recommend overweighting Canadian high-yield bonds as interest rate spreads have risen to levels that have historically corresponded to positive forward relative returns versus investment-grade bonds.

Cash (Target = Middle): Real cash returns are negative and are likely to remain less attractive relative to bonds as the Banc of Canada maintains a 0% policy rate and seeks to keep longer-term rates low in support of an economic recovery. We recommend having enough cash to cover short-term expenses and invest during pullbacks.

Investors should understand the risks involved in owning investments, including interest rate risk, credit risk and market risk. The value of investments fluctuates, and investors can lose some or all of their principal. The prices of small-cap, mid-cap and emerging-market stocks are generally more volatile than those of large company stocks. Special risks are inherent to international investing, including those related to currency fluctuations and foreign political and economic events.

