2024 Outlook

Navigating the last mile of the cycle

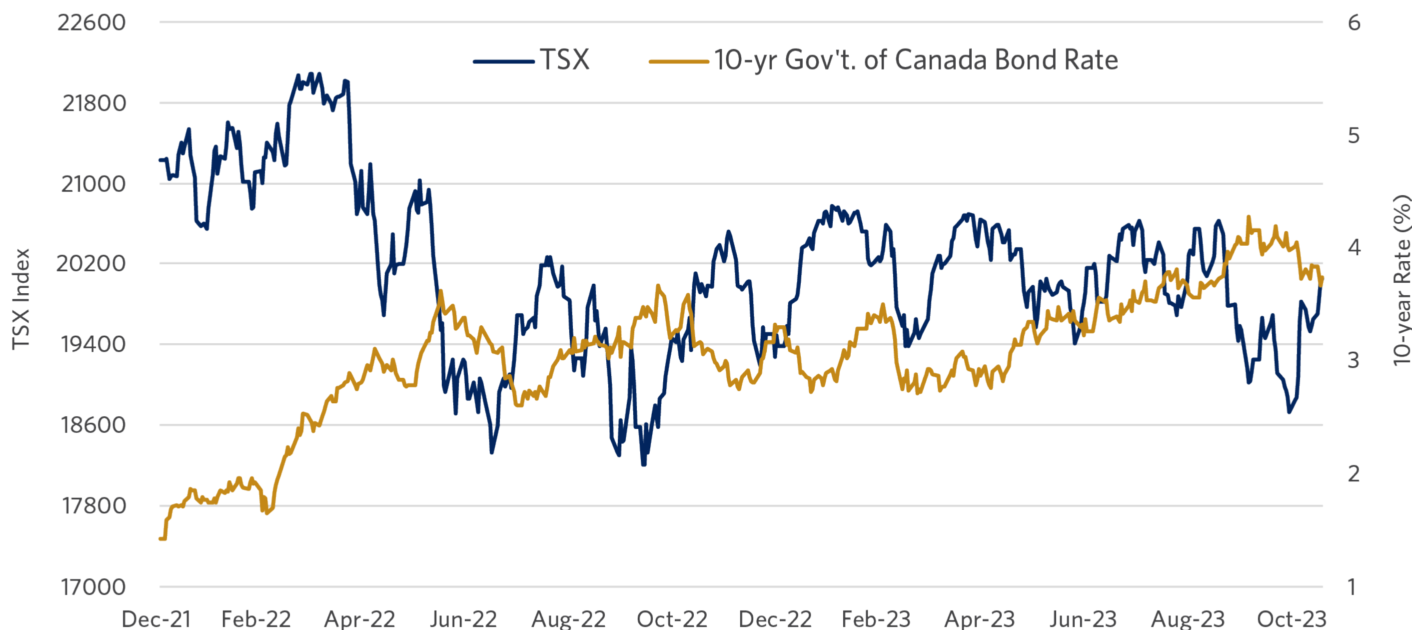
Investment Strategy Team

After more than a decade of stocks traveling a path paved by historically and persistently low interest rates, higher yields have driven a winding road for market returns in recent years. In 2024, we think markets will navigate the last mile in the inflation and central bank tightening cycles, bringing more open road. But this could also bring some bumps along the way. Equities and bonds fell into a bear market in 2022 as the Bank of Canada (BoC) and the U.S. Federal Reserve (Fed) began hiking interest rates to fight four-decade-high inflation. 2023 brought periods of sharply rising and falling interest rates, with stocks staging a solid rebound.

We think 2024 will bring the next phase of the cycle. Inflation should continue to moderate amid a slowing economy. And we expect the BoC and the Fed to slowly transition away from a restrictive interest rate policy, helping clear the road for a renewed expansion.

The market won't dodge every pothole as this takes shape. But we think 2024 will ultimately prove to be a positive year for both stock and bond returns.

Stocks vs. Interest Rates



Source: FactSet, S&P/TSX Composite and 10-Year Gov't. of Canada Bond yield

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Here are **10 of our key views for 2024.**

1. Economic growth slows before rebounding in the second half of 2024

The Canadian and U.S. economies remained resilient for the first half of 2023, driven in large part by healthy consumption growth. Households continued to spend despite rapidly rising interest rates and tightening lending conditions.

The rising rates however, caught up with Canadians in the second half of 2023, as Q3 growth turned negative. Many Canadians have variable rate and short-term mortgages, and as rates rose, so did mortgage payments, which impacted Canadians' ability to spend.

In the U.S., economic growth held up through 2023, but we expect growth to soften in the first half of 2024 to below trend growth levels of 1.5%. We believe somewhat weaker consumption, lower government spending, and a cooling labour market will translate to slower growth.

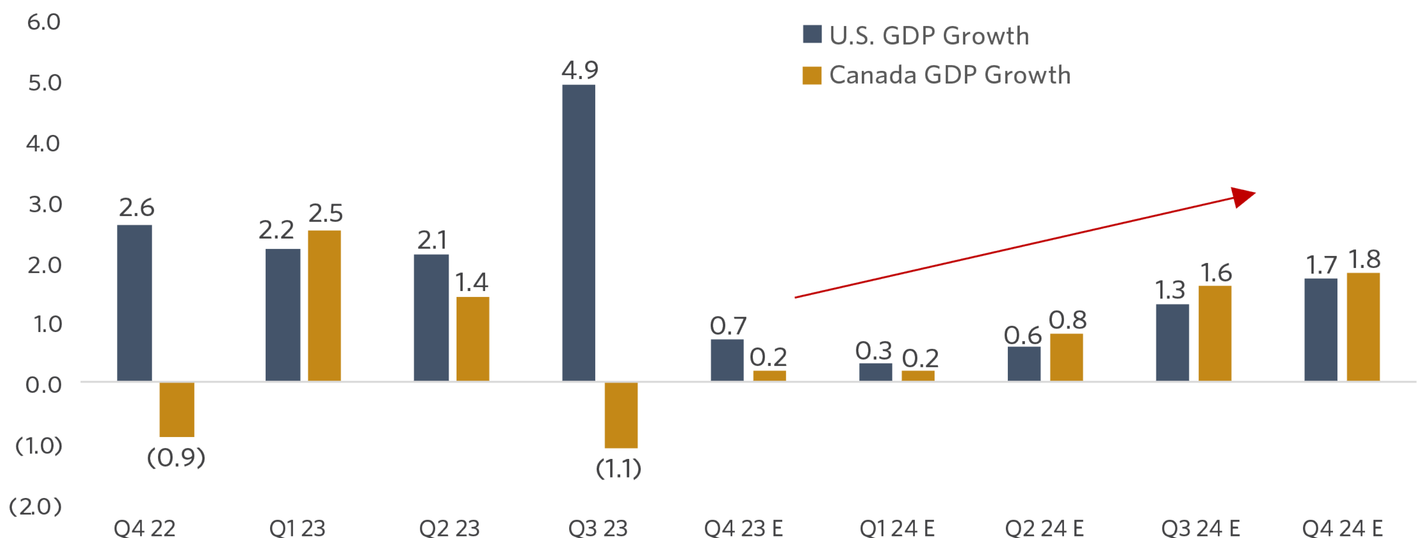
Canadian and U.S. consumers alike face some challenges heading into 2024, including declining savings rates, rising credit card debt, and still-elevated interest rates. In addition, we believe some loosening in the labour market may put downward pressure on wage gains and consumer confidence overall.

While both economies may avoid a textbook recession, a rolling recession may emerge. Parts of the economy, such as manufacturing and perhaps housing, could bottom and then stabilize, while other parts, such as services and consumption, could peak and move lower.

After a year and a half of the Bank of Canada (BoC) and the U.S. Federal Reserve (Fed) increasing interest rates, we believe economic growth may finally feel the lag impacts in 2024. On the positive side, a slowdown in growth could also support lower inflation, reducing the need for further central bank tightening.

As we look to the second half of 2024, we expect growth in both economies to gradually accelerate once again. We believe that the combination of ongoing inflation moderation, possible rate cuts from the central banks, and better corporate margins and earnings growth will lead to improving economic growth later in 2024. As markets are forward-looking, we may begin to see a move higher even before economic growth stabilizes and improves.

U.S. and Canadian real GDP growth expected to soften before rebounding in the back half of 2024 (QoQ% SAAR)



Source: Bloomberg, Edward Jones.

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2. Unemployment rises but stays below 7%

In 2023, a strong labour market gave consumers the confidence to spend in the face of high inflation and rising borrowing costs. But the tight conditions also meant the BoC and the Fed might need to keep policy restrictive to ensure higher labour costs don't feed into higher inflation.

We anticipate the demand for labour to cool in 2024 as business spending and hiring moderate in response to slower economic growth. This easing could drive wage growth and inflation lower, providing the BoC and the Fed the opportunity to begin cutting interest rates.

In Canada, job creation has been slower than labour force growth. This is mainly due to immigration and as a result the unemployment rate has risen from 4.9% to 5.8%. Despite this, unemployment remains low, supporting income gains. However, the pace of job gains is likely to slow as companies reduce hiring to protect profitability.

The declines in job vacancies, the quits rate, and temporary help payrolls are early signs of softening that will likely lead to a better balance between the supply and demand for labour in 2024. To a lesser extent, labour market conditions could remain supportive. The solid starting point of corporate finances indicates that any rise in unemployment might be moderate.

Decline in Canada job vacancies suggest better balance between supply and demand for labour

Source: Bloomberg, Edward Jones.

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3. Inflation falls toward 2.5% in Canada and the U.S.

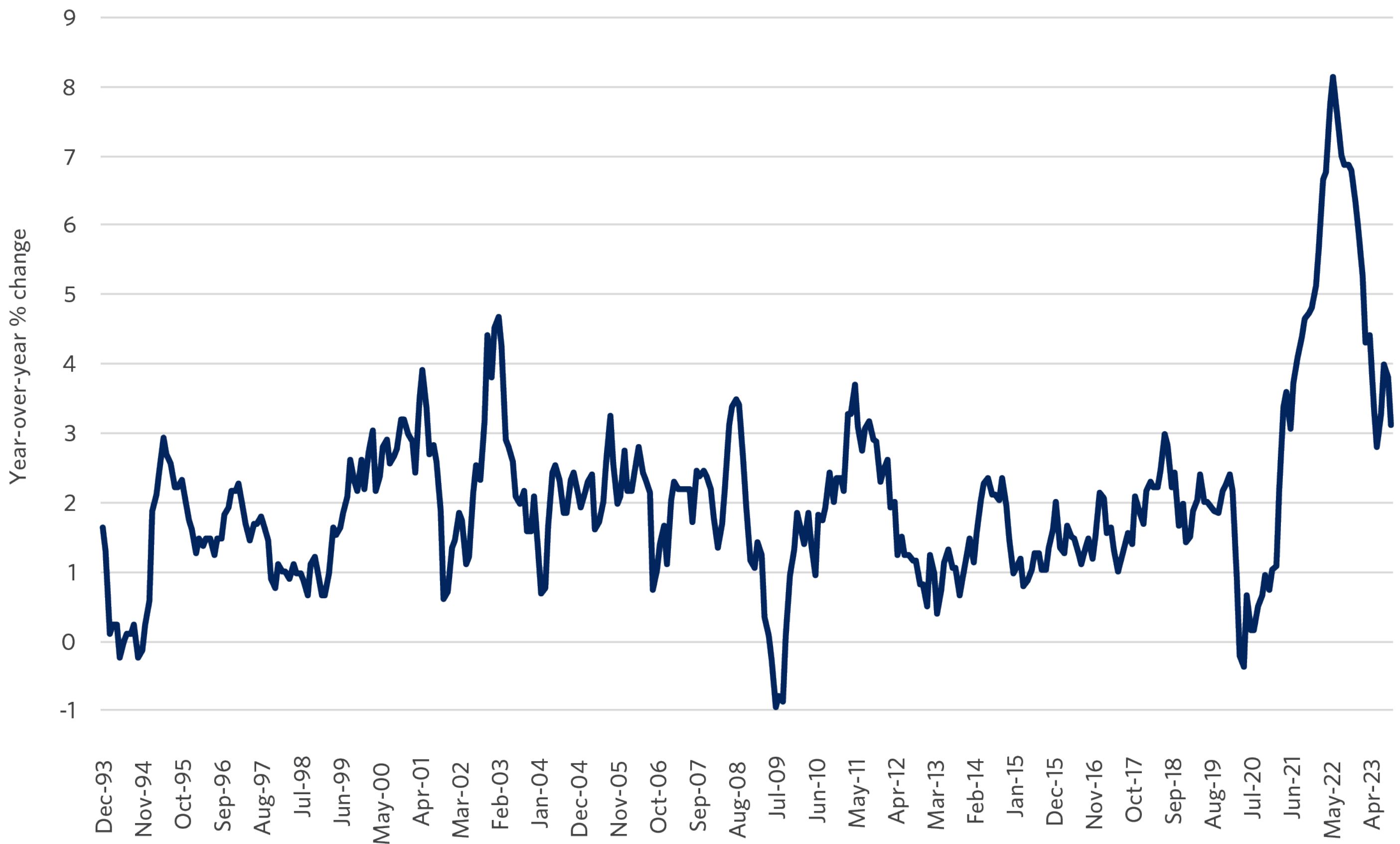
Significant progress has been made on the consumer price front, with core inflation (excluding food and energy) falling materially from the peak in 2022. We think this downward momentum can continue through 2024, with inflation reaching 2.5%.

The silver lining of a deceleration in economic growth is that softer demand will exert further downward pressure on inflation. This, in turn, should enable both the BoC and the Fed to eventually cut interest rates to a more neutral level, acting as a shock absorber that can help avoid a more severe recession.

Further, if labour supply continues to increase alongside rising labour productivity, a trend that has been particularly solid in the U.S., an environment where economic growth holds up while wage pressures and inflation continue to fall could develop.

Consumer goods prices started to decline in late 2023, including a much-needed decrease in vehicle prices. The one notable hold out has been stubbornly high home and rent prices. However, we believe relief is on the way: Recent data is signaling to us that housing prices may allow overall inflation to fall faster in 2024.

Domestic consumer prices have moderated toward the Bank of Canada's target



Source: FactSet, Canada Consumer Price Index.

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4. The BoC and the Fed cut rates later in 2024

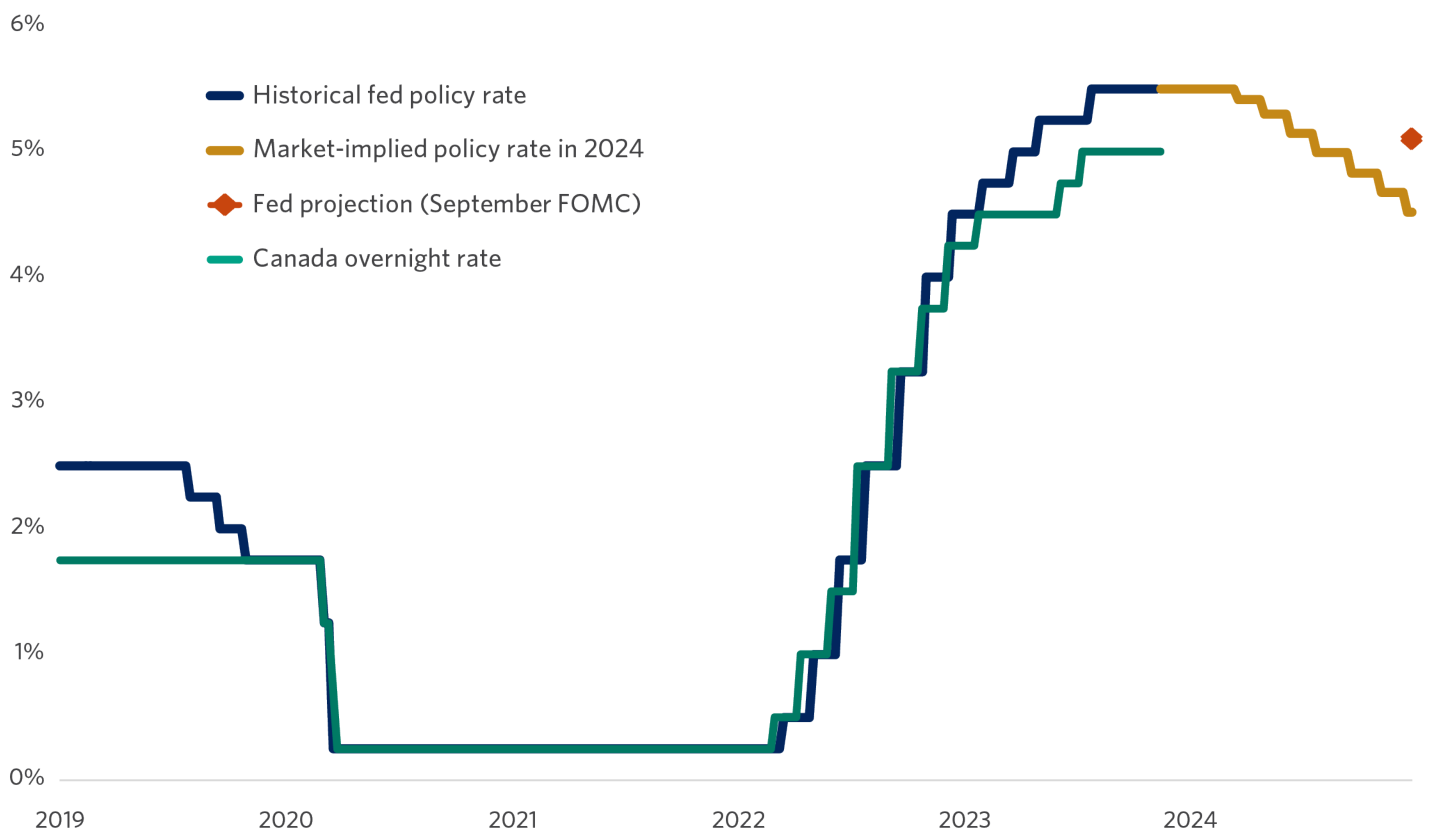
At the core of our outlook for equity and bond markets is the trajectory of central bank policy, which is set to undergo a notable shift in 2024. We believe that, after the most aggressive tightening campaign in 40 years, the hiking cycle for major central banks is complete.

The BoC and the Fed will likely err on the side of caution, signaling an extended pause and keeping the BoC rate at 5% and the Fed funds rate at 5.25%–5.5% in the first half of the year. But easing inflation pressures, a cooling labour market and a slowdown in growth will likely pave the way for interest rate cuts in the second half of 2024.

Policymakers will likely push back against expectations for aggressive cuts to ensure inflation returns to the 2% target. This push and pull between markets and the central banks could drive market volatility. Yet, if price pressures continue to ease as we expect, the real policy rate (after adjusting for inflation) will become more restrictive.

Weaker economic momentum in Canada could drive the BoC to cut rates slightly more than the Fed, potentially bringing its policy rate around 4%. We believe that in the U.S., the Fed will try to offset the higher real policy rate by cutting rates potentially more than the two times projected at the September 2023 Federal Open Market Committee (FOMC) meeting. We expect a modest easing in policy, with the extent depending on core inflation approaching the Fed's 2% rate target.

The Fed and BoC will likely stay on pause before cutting rates in the second half of 2024



Source: Bloomberg, September FOMC meeting projections

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5. The yield curve steepens, with the 10-year yield falling slightly below 3% in Canada and 4% in the U.S.

In 2023, Canada's elevated wage growth and the BoC's rate hikes pushed the 10-year Government of Canada (GoC) yield to 4.25%. Subsequently, central bank-friendly data have supported a gradual bond recovery. In the U.S., an unexpectedly strong economy, the Fed's higher-for-longer messaging on interest rates, and increased Treasury issuance for the expanding fiscal deficit pushed the 10-year Treasury yield to 5%, its highest point in 16 years.

We think conditions are in place for both central banks to stop hiking rates, removing some major resistance to bond performance. Looking at historical U.S. data, we've seen seven major Fed tightening cycles over the past 40 years. In each, short- and long-term yields were lower six months after the last hike, declining about 1% on average.

While it's hard to pinpoint, we anticipate a similar trend this time, suggesting that last year's surge in interest rates might have marked the peak for this cycle. The policy-sensitive 2-year GoC yield could fall more sharply, reflecting expectations for rate cuts, while the growth-sensitive 10-year GoC yield could decline more modestly if a recession is averted.

The yield curve represents the difference between short-and long-term yields. We see the 10-year yield falling slightly below 3% in Canada and 4% in the U.S., accompanied by a steepening yield curve. After being inverted for the longest stretch since the early 1980s, the yield curve could turn positive.

Short- and long-term yields tend to peak right around the last Fed hike

Source: Bloomberg, Edward Jones.

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6. Slower growth drives some volatility, but equities build on 2023's gains.

After double-digit declines in 2022, both the TSX and S&P 500 experienced solid rebounds in 2023, albeit driven by a narrow set of sectors and large-cap tech stocks. We believe the stock market has room to continue to build on 2023's gains and move higher, with the potential for the U.S. market continuing to outperform the Canadian market.

These gains may come from corporate earnings growth, which we believe will accelerate to 5%–10% for the S&P 500 next year, and some valuation expansion, especially as interest rates continue to moderate. Stocks outside of the mega-cap technology space may offer better prospects for valuation expansion.

We expect stock markets to end higher in 2024, but with their fair share of volatility. Markets may not be able to ignore a potential economic slowdown in the first few months of 2024, which we expect to be more severe in Canada than the U.S. However, without a deep and prolonged downturn, we believe markets can look past a slowdown to a period of growth ahead.

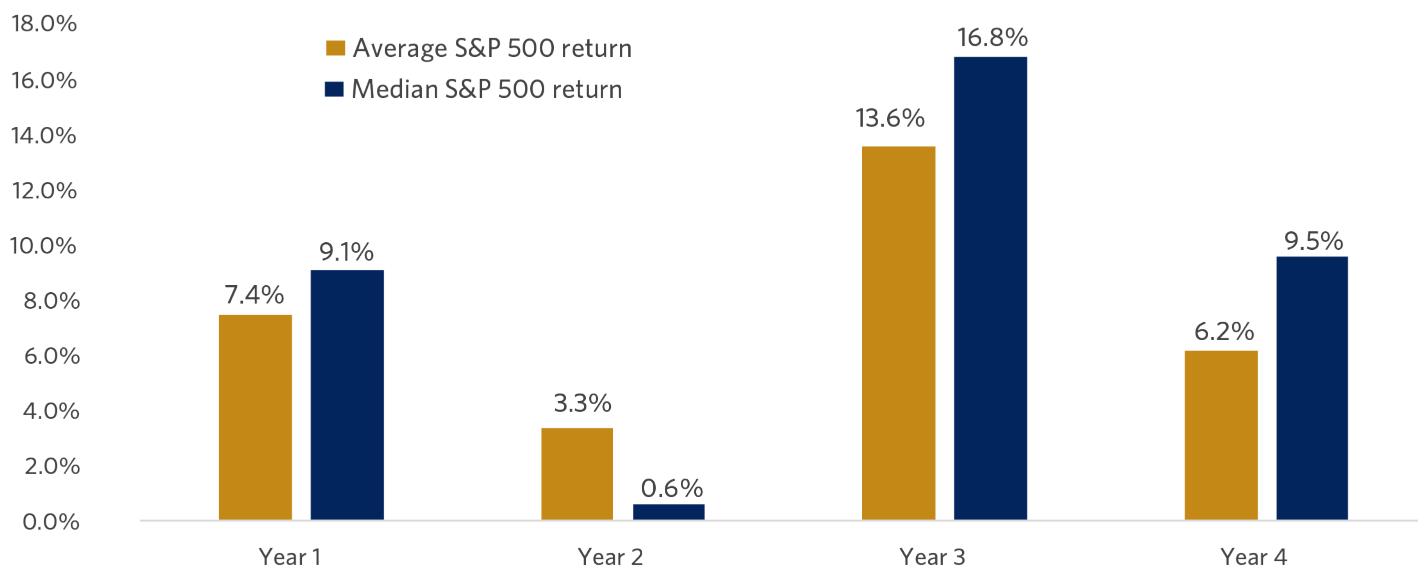
2024 is a U.S. presidential-election year, which could spark some headline volatility and near-term uncertainty, but historically, election years have been positive for the markets. Once the election is over, and the uncertainty over which political party holds the balance of power in the U.S. is removed, the markets will have a clearer picture with regards to any new legislation or regulations that may be imposed.

With the U.S. Congress still divided, we expect gridlock to remain in place in 2024, regardless of the election outcome. This typically means no new legislation or regulations are passed, which markets tend to like as it makes the operating environment more favourable for companies.

Overall, we see a trifecta of fundamental factors that may favour Canadian and U.S. stock market performance in 2024:

- Ongoing moderation in inflation;
- The potential for the BoC and the Fed interest rate cuts;
- A growth re-acceleration in the second half of the year.

Since 1930, U.S. Presidential cycle returns have been highest in Year 3, but Year 4 and 1 returns are also solid



Source: Bloomberg, Edward Jones. Past performance does not guarantee future results.

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7. Laggards play catch-up as we enter an early cycle of economic growth

A key theme in the stock market for 2023 was narrow leadership, with mega-cap technology driving much of the gains. In 2024 we would expect some laggards to play catch-up.

We see this playing out in two phases of the economic cycle. Early in 2024, we expect both the Canadian and U.S. economies to remain in the "late cycle and economic slowdown" phase. During this time, we expect investors to gravitate toward parts of the market that have been working well, such as large-cap technology, and perhaps tilt a bit more defensively in sectors such as health care and staples.

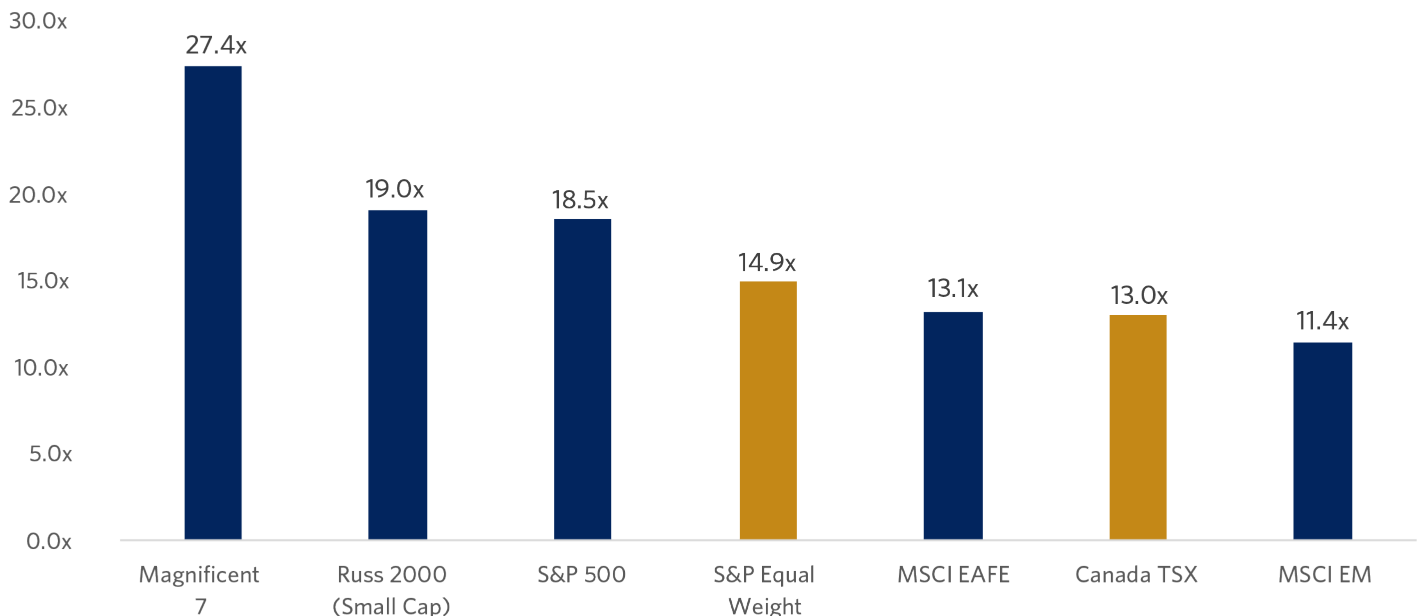
Once the late cycle or downturn is confirmed, markets may look quickly toward an early cycle economic recovery. This phase of economic growth is when we see the typical recovery playbook emerge: Leadership tends to be in areas such as small-cap stocks and cyclical parts of the market that are leveraged to economic growth, including industrials and consumer discretionary. International and emerging-market stocks may also lead, especially if global growth is rebounding.

With generative AI (artificial intelligence) in the early innings of multiyear growth, we still view the large-cap technology space favourable but see diversification beyond technology more critical to portfolio returns in 2024.

The *'Magnificent Seven'* stocks (Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia, and Tesla) have enjoyed full valuations, perhaps somewhat justified given their consistent earnings growth overall.

However, stocks outside large-cap technology may have a better chance for valuation expansion in the year ahead. As the economic cycle turns in 2024, so could stock market leadership.

Valuations are more reasonable outside of large-cap technology (Fwd P/E ratio)



Source: Bloomberg, Edward Jones. Magnificent 7 stocks are Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia and Tesla. Data as of 11/20/2023. As of 11/20/23

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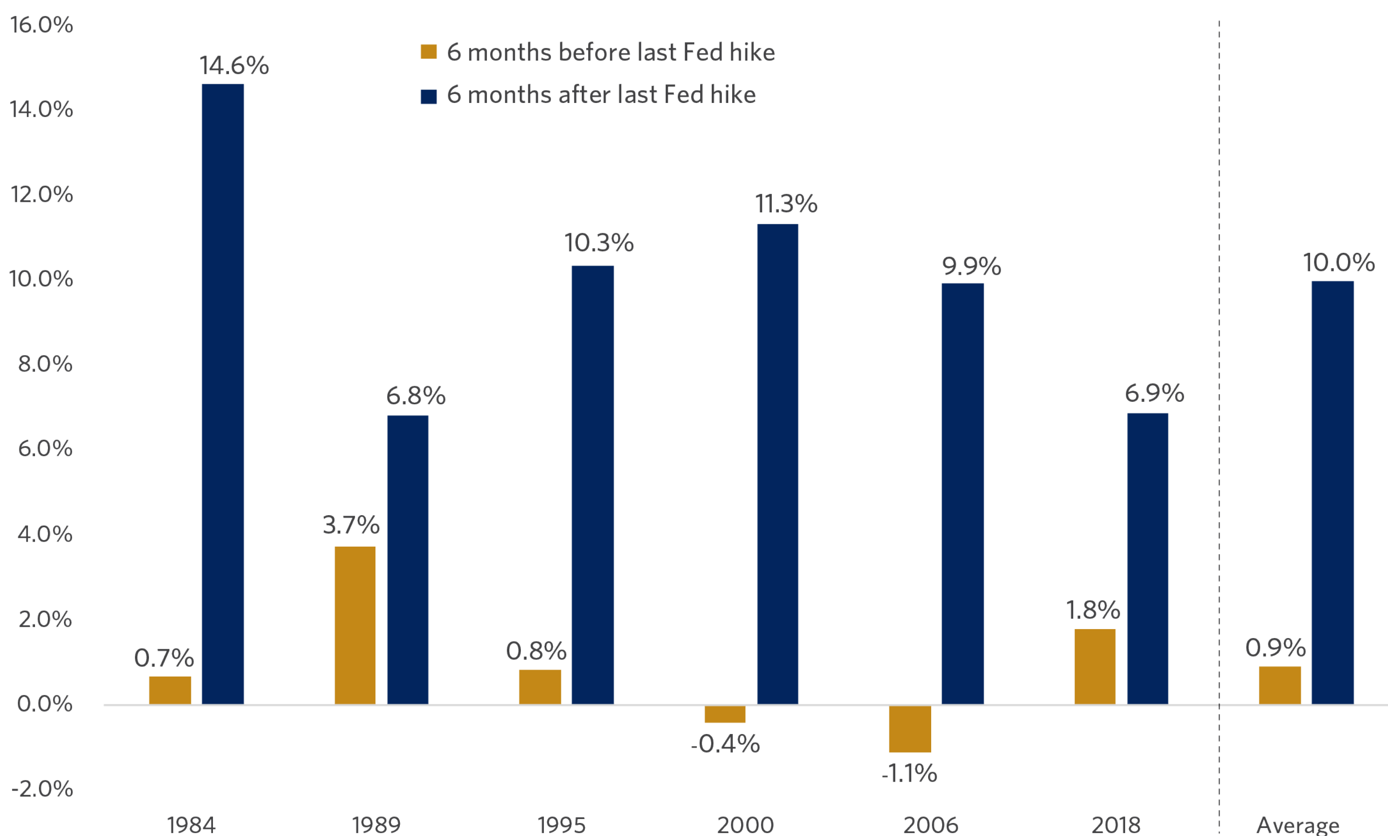
8. Bonds make a comeback, with cash giving up its lead

After a rough start in 2023 and after underperforming cash over the previous two calendar years, investment-grade bonds ended the year on a strong note. Despite the attractive yields in Guaranteed Investment Certificates (GICs) and short-term bonds, which carry little or no price risk, we see compelling opportunities in intermediate and long-term bonds, which have higher sensitivity to interest rate changes.

The end of the BoC and Fed tightening has historically meant above-average bonds returns. An upcoming inflection point in the interest rate cycle, combined with historically attractive valuations, could mean cash will give up its lead in 2024. If the central banks pivot to lower rates later in 2024, we see an opportunity for investors to slightly extend the duration of their bonds.
If GICs represent an oversized part of a fixed-income portfolio, we recommend reducing the cash allocation or reinvesting the maturing principal into longer-maturity bonds. These bonds can help investors lock in the historically high yields for a longer period. They also may appreciate as the BoC and the Fed make further progress toward their 2% inflation target.

On the credit side, spreads have remained contained supported by strong corporate fundamentals but could widen if growth cools.

Bond performance around end of major Fed tightening cycles



Source: Morningstar Direct, Edward Jones. Bloomberg US Agg Bond TR USD. Past performance is not a guarantee of future results.

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9. Overseas economies diverge, the Canadian dollar softens

We believe European economic growth could stall in 2024, with the potential for a brief, mild recession. In Europe, higher interest rates have weighed on economic activity, particularly within the manufacturing sector. Despite the impact of central bank rate hikes and slowing growth, inflation remains above central bank targets.

In the United Kingdom, CPI inflation excluding food and energy rose by over 6% year over year in October 2023. Additionally, measures of U.K. wage growth have failed to moderate, rising nearly 8% year over year in late 2023. If this situation remains, it could lead to stubbornly high inflation and force central banks to keep rates higher for longer.

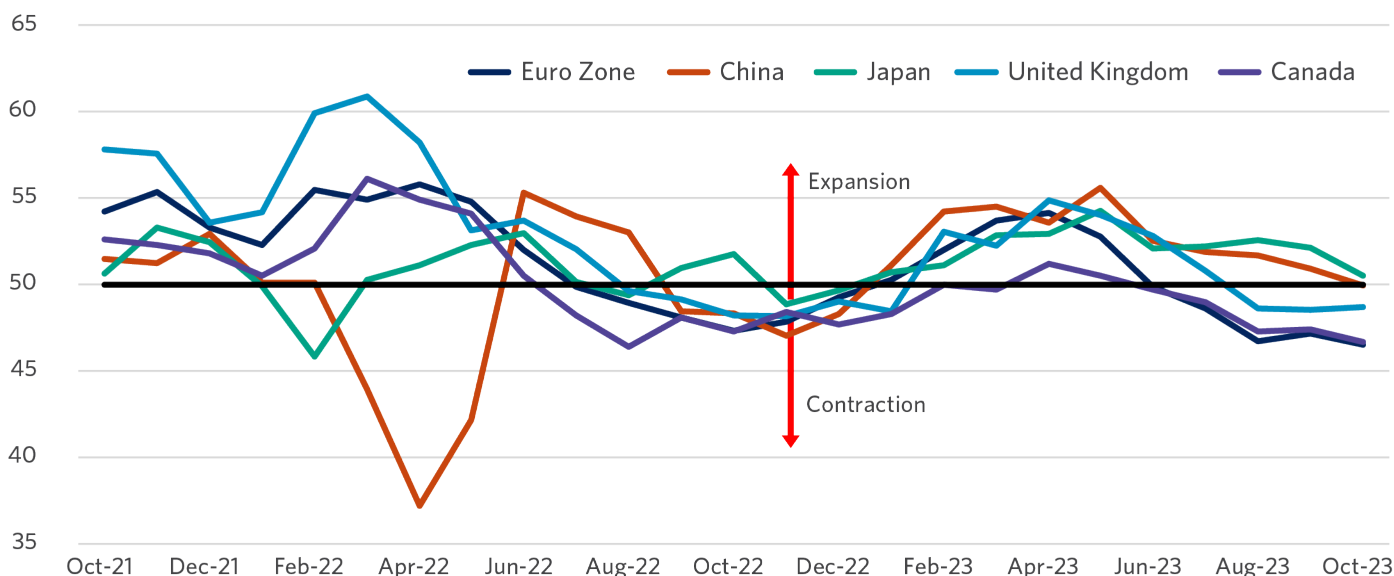
The outlook for China and Japan looks brighter. In China, deflationary and property sector concerns have led policymakers to enact stimulus measures to help bolster economic and financial market activity. While risks remain, we believe the enacted stimulus could offer support to the Chinese economy in 2024.

In Japan, inflation is higher by historical standards but has been contained, with headline CPI peaking at 4.4% in January 2023. Some inflation is likely welcome for Japan, after it struggled to fight off deflationary pressures for much of the past three decades. While higher inflation could weigh on consumer confidence and spending, still-accommodative policy, steady wage growth, and a tight labour market could help offset these headwinds in 2024.

While economic trends could diverge, the potential for a modestly lower Canadian dollar could boost international returns in Canadian dollar terms. The Canadian Dollar (CAD) relative to the U.S. Dollar (USD) has spent much of the past seven years between U.S.$0.70 - $0.80 and most of 2023 in the middle of that range. Two factors that tend to drive the CAD/USD exchange rate are interest rates and oil prices, which could lead to the Canadian dollar hovering in the low end of that long-term range in 2024.

Differences in interest rates favour the U.S. which we expect will continue into 2024. Economic growth in Canada could stagnate in 2024, which along with downward trends in domestic inflation, should support the BoC pivoting to interest rate cuts. While the Fed is likely on a similar path to cut rates in 2024, resilient economic activity in the U.S. could prevent the Fed from cutting policy-rates as aggressively in 2024 as the BoC, leading to higher U.S. rates and a softer Canadian dollar. Oil prices could have a neutral influence on the CAD as upward pressures from geopolitical uncertainties are offset by moderating global growth.

S&P global composite PMI's



Source: FactSet, S&P Capital IQ.

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10. Real estate, the U.S. election and geopolitics spur bouts of market weakness

We've seen some weakness emerge in the Canadian residential real estate market recently, an unsurprising trend given rising mortgage costs. We think some softness could persist in overall housing activity, but we don't expect this to result in a crash in prices. However, we think the more acute impact will be felt in domestic economic growth, as elevated consumer debt levels, higher mortgage payments and slower wage growth will impact overall household spending (which comprises nearly 60% of Canada's GDP) in 2024.

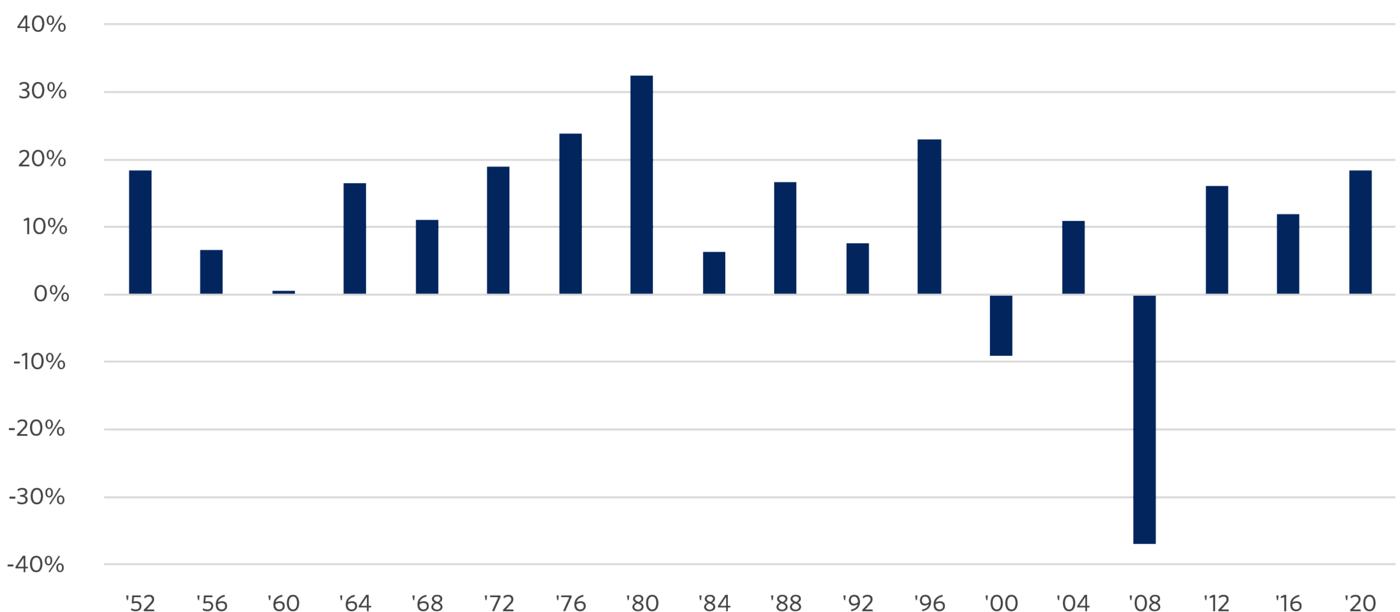
A view that gained popularity amid 2023's U.S. banking turmoil was that a coming crash in U.S. commercial real estate would trigger a larger financial and market crisis. We don't believe this will be the case, but we do think a slowdown in economic activity will bring some credit stress. We expect overall loan delinquencies and losses to rise in 2024, with the shifting post-pandemic real estate landscape possibly exerting the most pressure on commercial property prices and loan performance.

We do not, however believe loan defaults will cause wider economic damage. U.S. commercial real estate investment and prices haven't experienced the same mania as U.S. residential housing did in the late 2000s. Instead, we think some evidence of deteriorating credit conditions could resurface worries about loan losses for the banking sector and resulting capital constraints. This could spark an episode of volatility in the broader markets, although we doubt it will be a repeat of the U.S. regional bank failure turmoil experienced in March 2023.

2024 is a U.S. election year but history shows that the partisan outcomes of U.S. presidential elections don't play a material or lasting role in dictating market performance, however there is often volatility leading up to an election. The lesson history teaches every four years: Markets will be guided by the path of the broader economy, earnings, and interest rates, rather than the outcome on election day. Equity markets will likely react to U.S. political headlines, but any election-driven weakness will probably be temporary.

Having said that, we doubt the election will clear the gridlock in Washington, which offers a potential silver lining for markets by reducing the likelihood of new, sweeping regulation. At the same time, the longer-term geopolitical backdrop remains unknown, as the president will likely further shape the tone with China and global alliances. Given the ongoing conflict overseas, we believe geopolitical tensions will be the source of temporary but noticeable weakness in 2024.

Stock market performance in U.S. election years



Source: FactSet, S&P 500 Index.
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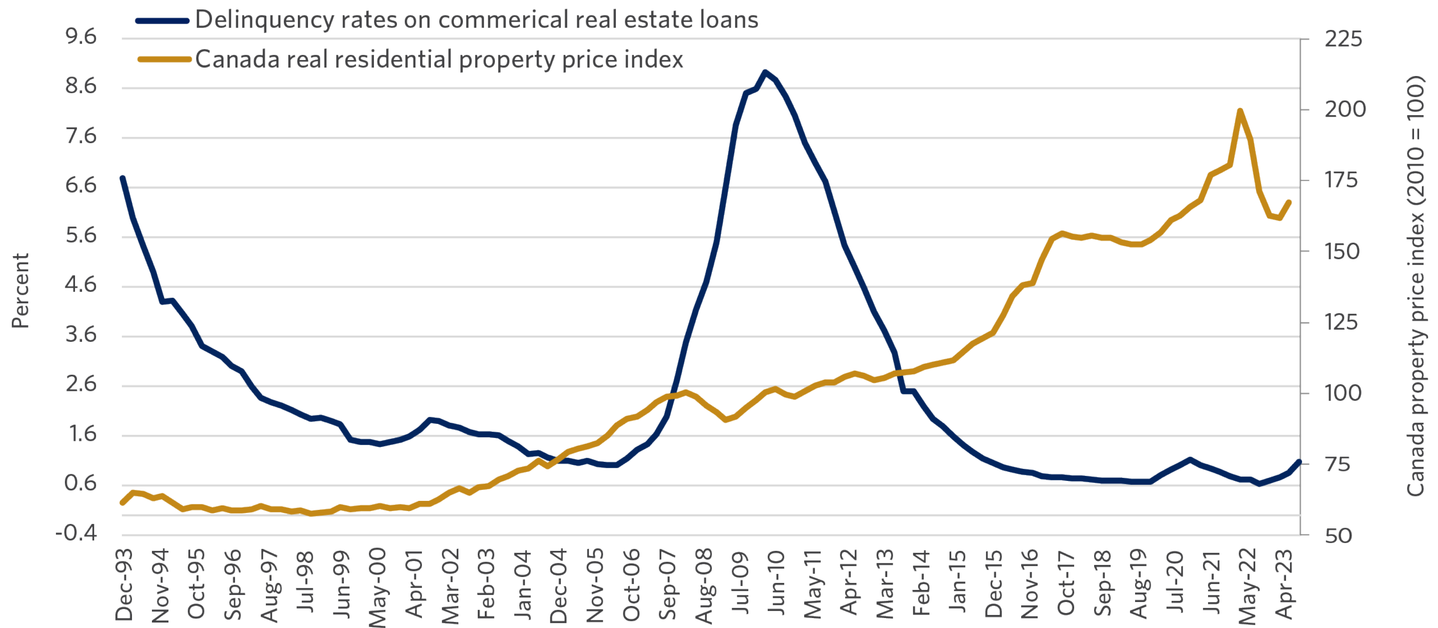
Commercial delinquency rates and residential property prices



Source: Factset. U.S. commercial loan deliquency rate, Canada real residential property price index, quarterly through Q2 2023.

Planning Considerations for 2024

While we have made the following observations and predictions about the economy and the markets, every client situation is unique, and decisions should be driven by your personal financial strategy, established by you and your advisor. Below are a few factors to consider when reviewing and updating your personal financial strategy for 2024.

Registered Plans: New plans and important changes

- **The First Home Savings Account (FHSA) was launched in 2023.** This is a new tax-free account designed to help Canadians save for their first home purchase. This account allows those 18 to 71 years old to contribute up to $8,000 per year ($40,000 lifetime maximum) to save for the purchase of a home. Contributions are tax-deductible, earnings within the account are not taxable, and withdrawals are tax-free when used towards the purchase of a qualifying first home purchase.

- **The Tax-Free Savings Account (TFSA) contribution limit is increasing in 2024.** Effective January 1, the annual TFSA contribution limit will be $7,000, bringing the lifetime contribution limit to $95,000 for those who were 18 years or older in 2009. Like all registered plans, your contribution room is unique to you, so be sure to keep track of it over the years to ensure you do not over contribute.

- **Changes to the Qualifying Family Member definition for Registered Disability Savings Plans (RDSP) came into effect in 2023.** The Qualifying Family Member measure was set to expire on December 31, 2023, however changes to the Federal budget extended the timeline to December 31, 2026. In addition, the Qualifying Family Member measure now allows an adult sibling to open an RDSP on behalf of their qualifying family member.

- **Registered Education Savings Plan (RESP) allowable Educational Assistance Payments (EAPs) increased in 2023.** The 2023 Federal budget introduced legislation that increased the EAP limits from $5,000 to $8,000 for full-time studies and from $2,500 to $4,000 for part-time studies. These limits apply to the first 13 consecutive weeks for students enrolled in a qualifying educational program. After the 13 consecutive weeks, there is no limit to the EAPs that can be paid if the student continues to qualify to receive them.

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- **Government Pension Plans: Increased benefits and increased costs.**
  - **The Canada Pension Plan (CPP), Quebec Pension Plan (QPP) and Old Age Security benefits are increasing in 2024.** The maximum monthly allowance for CPP/QPP is increasing by 4.4% in 2024, raising the maximum monthly amount to $1,364. The maximum monthly OAS payment or January to March 2024 will be $713. This is an increase of 3.7% from last year and 0.8% from December 2023. As a reminder, those age 75 and older, receive a 10% increase to their OAS amount. This enhancement was introduced in July 2022 and will happen automatically in the month following your 75th birthday.
  - **Enhancements to the Canada Pension Plan (CPP) and Quebec Pension Plan (QPP) come into effect in 2024.** Starting January 1, Canadian workers will be required to make additional contributions to the CPP/QPP if they earn more than $68,500. A new second earnings ceiling will be introduced at $73,200, requiring those that earn above this amount to pay an additional $188 in CPP/QPP premiums. Employers will also be required to pay an additional $188 in premiums for employee's earnings above the second ceiling, while self-employed individuals will have to pay the employee and employers portions ($376)

	2023	2024
Contribution Limits		
Registered Retirement Savings Plan (RRSP)	$30,780	$31,560
Tax-Free Savings Account (TFSA)	$6,500	$7,000
First Home Savings Account (FHSA)	$8,000	$8,000
Government Pension Plan monthly benefits		
	2023 Monthly Maximum	**2024 Monthly Maximum**
Canadian Pension Plan (CPP) at age 65	$1,307	$1,364
Quebec Pension Plan (QPP) at age 65	$1,307	$1,364
Old Age Security (OAS) – 74 and younger*	$708	$713
Old Age Security (OAS) – 75 and older*	$778	$785

* OAS amounts are updated quarterly. This annual amount is subject to change.

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Benefit Payment Dates

CPP/OAS	QPP	Canada child benefit (CCB)	Climate action incentive payment
January 29, 2024	January 31, 2024	January 19, 2024	Applicable to residents of Alberta, Manitoba, New Brunswick, Newfoundland and Labrador, Nova Scotia, Ontario, Prince Edward Island and Saskatchewan only.
February 27, 2024	February 29, 2024	February 20, 2024	
March 26, 2024	March 28, 2024	March 20, 2024	
April 26, 2024	April 30, 2024	April 19, 2024	
May 29, 2024	May 31, 2024	May 17, 2024	
June 26, 2024	June 28, 2024	June 20, 2024	January 15, 2024
July 29, 2024	July 31, 2024	July 19, 2024	April 15, 2024
August 28, 2024	August 30, 2024	August 20, 2024	July 15, 2024
September 25, 2024	September 27, 2024	September 20, 2024	October 15, 2024
October 29, 2024	October 31, 2024	October 18, 2024	
November 27, 2024	November 29, 2024	November 20, 2024	
December 20, 2024	December 30, 2024	December 13, 2024	

Inflation moderates, but expenses remain elevated

Although we anticipate inflation to slow in 2024, elevated prices through 2023 may have impacted your budget or ability to pay all expenses with your income. If this required you to access your emergency savings or accounts established for other long-term goals like retirement, we recommend you:

- **Review your budget.** Make sure it reflects the current prices for your expenses, including your debt payments.
- **Replenish your emergency savings.** If you spent some or all your emergency cash, or you simply want to build it up, consider saving enough to cover three to six months' worth of your total expenses, and keeping that in cash or cash equivalents for emergency needs.
- **Replenish your retirement spending account.** We recommend retirees maintain 12 months of total expenses in cash and an additional 3-5 years of total expenses in GICs and short-term fixed income. This helps to ensure you've set enough aside to meet your upcoming spending needs and that you don't have to sell investments at inopportune times.

Rates stabilize, but the cost of borrowing remains high

Interest rates have risen over the past year, which could present some challenges. If you are carrying debt, we recommend you:

- **Review your debt.** Higher interest rates could mean a higher cost of borrowing if you've obtained a new loan or mortgage, or if you have a variable rate mortgage or line of credit. Make sure you're building debt servicing payments into your budget. Also, if you have credit card debt, prioritize paying this off as this type of debt tends to have the highest interest rates.
- **Review your mortgage renewal options.** If you have a mortgage renewing in 2024, you will likely need to budget for higher mortgage payments, as rates have increased in the past few years. To keep payments low, consider making a lump sum payment now or at renewal, if your lender allows this. Work with your advisor to weigh the pros and cons of making a lump sum payment vs. alternatives for the funds.

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Gift and Estate Considerations

- **Review your Estate plan.** Review your estate plan to ensure it aligns with your wishes, as financial or personal circumstances may have changed since your last review. An estate plan should include a will, powers of attorney for property and a representation agreement/powers of attorney for healthcare. Review your beneficiary designations on all registered accounts and life insurance policies annually to ensure they reflect your current wishes and align to your overall estate plan. Lastly, consider naming a trusted contact person that your advisor can contact in limited circumstances.
- **Consider gifting assets to loved ones to reduce the size of your estate.** Speak to your tax and legal advisors about whether gifting during your life might benefit your overall estate plan. A gift can be used in a way to help your loved ones save for their first home via the First Home Savings Account (FHSA), or kick start their own retirement savings in a Tax-Free Savings Account (TFSA) or registered retirement savings plan (RRSP). It can also benefit you as depending on how the assets is held, by gifting the assets while you are still alive, you can help reduce the amount of tax owing on death.

Investment considerations based on our outlook

1. **Review the starting point of your portfolio's design.** Your investment strategy should balance your comfort with risk, time horizon and financial goals. From there, you and your financial advisor will agree upon a strategic asset allocation that will help ensure proper diversification and help you realize your long-term goals. Talk with your financial advisor about our strategic asset allocation guidance, which highlights our recommendation to allocate across eleven asset classes. Our opportunistic guidance, depicted below, helps to identify timely opportunities to position your portfolio in the current market environment, based on our shorter-term outlook, while helping you stay diversified and within your comfort with risk.
2. **Review cash and cash equivalents.** The increased interest rates on savings accounts, GICs and annuities could provide near-term opportunities. However, while rates may look attractive today, work with your financial advisor to ensure you have the appropriate allocations in cash based on your individual emergency savings and spending needs and the timing of those needs. Aside from emergency savings and retirement spending, we do not recommend holding more than 5% of your investments in cash for longer-term goals like retirement.
3. **Diversify bond investments across maturities and credit quality.** As inflation and growth cools through 2024, interest rates are likely to drift lower. Consider reducing overweight allocations to short-term bonds and cash-like investments and complementing your fixed-income portfolio with long-term bonds to help lock in the benefits of today's higher rates. High-yield bonds help enhance the income of your portfolio, but credit spreads may widen as growth softens. Consider neutral allocations between high-quality and lower-quality bonds as the extent of the global economic slowdown comes more into view.
4. **Consider favouring U.S. large-cap stocks over Canadian large-cap stocks.** While interest-rate cuts could provide relief over time, we expect the impact of higher interest rates to weigh more on the Canadian economy than the U.S. economy. Some uncertainty has already been priced into Canadian equity markets, but recent economic and market trends indicate greater strength for U.S. large-cap stocks in the coming months, in our view. Given the potential for market volatility as the economy slows, we recommend neutral allocations across all other equity asset classes, including between equity and fixed-income more broadly.
5. **Consider timely portfolio positioning across equity sectors.** While we expect economic and consumer strength to moderate in 2024, recent trends have shown some resiliency. We expect consumer spending and moderating inflation to support sectors such as communication services and consumer discretionary, which we recommend overweighting in your portfolio. Consider underweighting financial services, given our concerns within commercial real estate, tighter credit standards, and our belief that interest rates are likely headed lower. Use periods of market volatility to rebalance, diversify or add quality investments in growth and value sectors, since we believe positive returns are likely in the year ahead.

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Opportunistic asset allocation guidance

Our opportunistic asset allocation guidance represents how we recommend positioning your portfolio across asset classes, based on current market conditions and our global outlook, while helping you stay appropriately diversified and within your comfort with risk. A neutral position indicates we recommend aligning your portfolio with your long-term, strategic target allocations.

	Underweight	Neutral	Overweight
Equity	•	●	•
Canadian large-cap stocks	●	•	•
U.S. large-cap stocks	•	•	●
Developed Overseas Large-cap Stocks	•	●	•
Canadian mid-cap stocks	•	●	•
U.S. small- and mid-cap stocks	•	●	•
Overseas small- and mid-cap stocks	•	●	•
Emerging market stocks	•	●	•
Fixed income	•	●	•
Canadian investment-grade bonds	•	●	•
International bonds	•	●	•
International high-yield bonds	•	●	•
Cash	•	●	•

Opportunistic equity sector guidance

Our opportunistic equity sector guidance represents how we recommend positioning across equity sectors within your portfolio, based our global outlook over the next six to 12 months, relative to a 60/40 blend of the S&P500 and TSX sector weights.

	Underweight	Neutral	Overweight
Communication services	•	•	●
Consumer discretionary	•	•	●
Consumer staples	•	●	•
Energy	•	●	•
Financial services	●	•	•
Health care	•	●	•
Industrial	•	●	•
Materials	•	●	•
Technology	•	●	•
Utilities	•	●	•

Source: Morningstar Direct, 12/13/2023. Representative indexes are: Canada Large-cap Stocks: S&P/TSX Composite Index, U.S. Small- and Mid-cap Stocks: Russell 2500 Index, International Bonds: Bloomberg Global Aggregate Bond Hedged Index , International High Yield Bonds: Bloomberg Global High Yield Index, Canada Bonds: FTSE TMX Canada Universe Bond Index, U.S. Large-cap Stocks: S&P 500 Index, Emerging Market Stocks: MSCI EM Index, Overseas Large-cap Stocks: MSCI EAFE Index, Canadian Mid-cap Stocks: S&P/TSX Completion, Overseas small and mid cap: MSCI EAFE SMID NR USD, Cash: FTSE TMX Canada Cdn Trsy Bill 91 Day. Past performance is not a guarantee of how the market will perform in the future. Indexes are unmanaged and are not available for direct investment. All returns expressed in local currency and include reinvested dividends.

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Market performance

It's natural to compare your portfolio's performance to market performance benchmarks, but it's important to put this information in the right context and understand the mix of investments you own. Talk with your financial advisor about any next steps for your portfolio to help you stay on track toward your long-term goals.

As of December 13, 2023

Asset class performance	2023	3-year	5-year
Total returns			
Cash	4.6	2.1	1.8
Canadian investment grade bonds	3.2	-3.8	0.9
Int'l high yield bonds	11.3	1.7	3.5
Int'l bonds	5.1	-2.8	0.9
Canadian large-cap stocks	9.7	8.8	10.3
U.S. large-cap stocks	24.8	12.7	14.5
Overseas large-cap stocks	13.8	5.7	7.0
Canadian mid-cap stocks	8.2	6.4	9.3
U.S. small- and mid-cap stocks	13.4	6.2	10.0
Overseas small- and mid-cap stocks	9.1	1.3	5.1
Emerging market stocks	4.5	-3.9	2.6

Equity sector performance	2023	3-year	5-year
Total returns			
Technology	67.0	-0.2	21.8
Consumer discretionary	8.2	8.0	9.9
Energy	5.8	24.0	11.7
Materials	-2.7	1.6	9.7
Industrials	9.1	9.0	12.9
Financials	10.0	10.6	10.4
Real estate	6.6	4.3	4.6
Health care	9.8	-31.4	-27.1
Communication services	-0.5	5.3	5.1
Consumer staples	11.8	13.6	12.2
Utilities	-0.7	0.1	8.5

Source: Morningstar Direct, 12/13/2023. Representative indexes are: Canada Large-cap Stocks: S&P/ TSX Composite Index, U.S. Small- and Mid-cap Stocks: Russell 2500 Index, International Bonds: Bloomberg Global Aggregate Bond Hedged Index , International High Yield Bonds: Bloomberg Global High Yield Index, Canada Bonds: FTSE TMX Canada Universe Bond Index, U.S. Large-cap Stocks: S&P 500 Index, Emerging Market Stocks: MSCI EM Index, Overseas Large-cap Stocks: MSCI EAFE Index, Canadian Mid-cap Stocks: S&P/ TSX Completion, Overseas small and mid cap: MSCI EAFE SMID NR USD, Cash: FTSE TMX Canada Trsy Bill 91 Day. Past performance is not a guarantee of how the market will perform in the future. Indexes are unmanaged and are not available for direct investment. All returns expressed in local currency and include reinvested dividends.

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