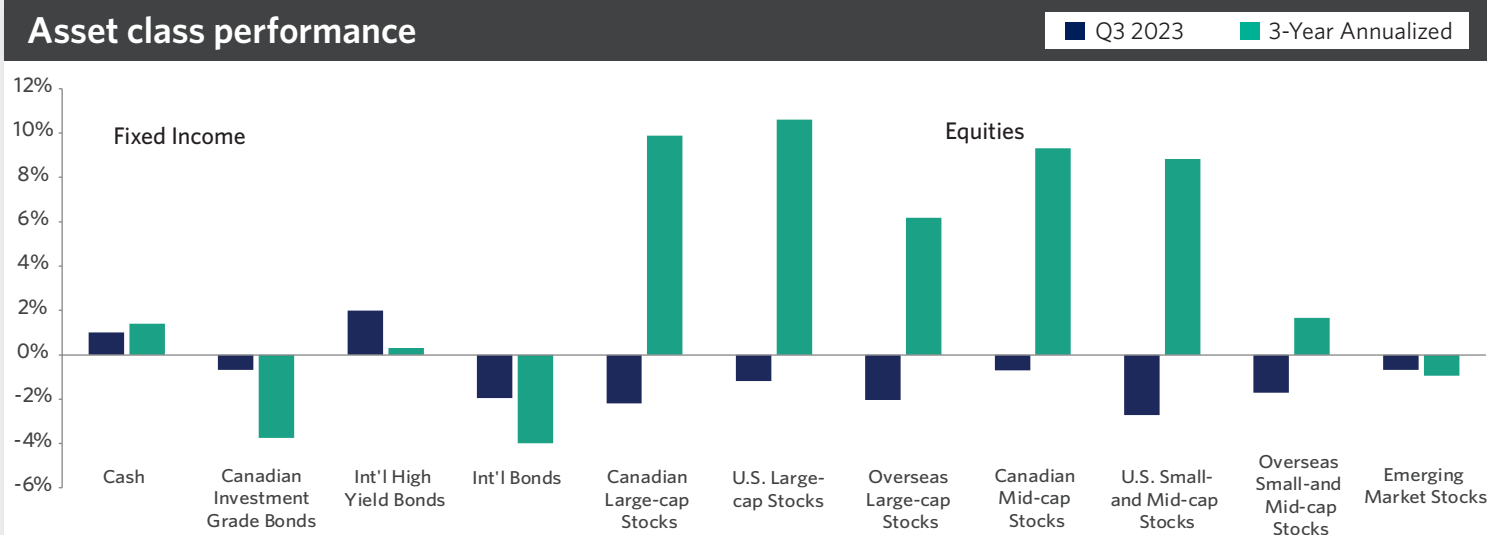


Quarterly market outlook: **Fourth quarter 2023****Asset class performance**

Source: Morningstar Direct, 9/30/2023. 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, 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.

# Looking back at the 3<sup>rd</sup> quarter

Monetary policy remained center stage in Q3. A spike in yields drove equity markets lower, while bond returns were mixed.

**Central bank messaging drive yields higher, stocks and bonds lower** — The Bank of Canada and the Federal Reserve hiked policy rates by 0.25% in July but held rates steady in September. In the Fed's September's meeting, it projected 0.5% of rate cuts in 2024, versus prior expectations of 1%. Encouragingly, the higher rate expectations were accompanied by stronger expectations for U.S. economic growth and tighter labour market conditions, not an increase in inflation expectations. The Bank of Canada also provided expectations for inflation in the July Monetary Policy Report. Unlike the Fed, the BoC projected higher CPI inflation for year end and 2024 compared to the April report. Markets responded with yields rising to new cycle highs and declines to equities and investment-grade bonds in the U.S. and Canada.

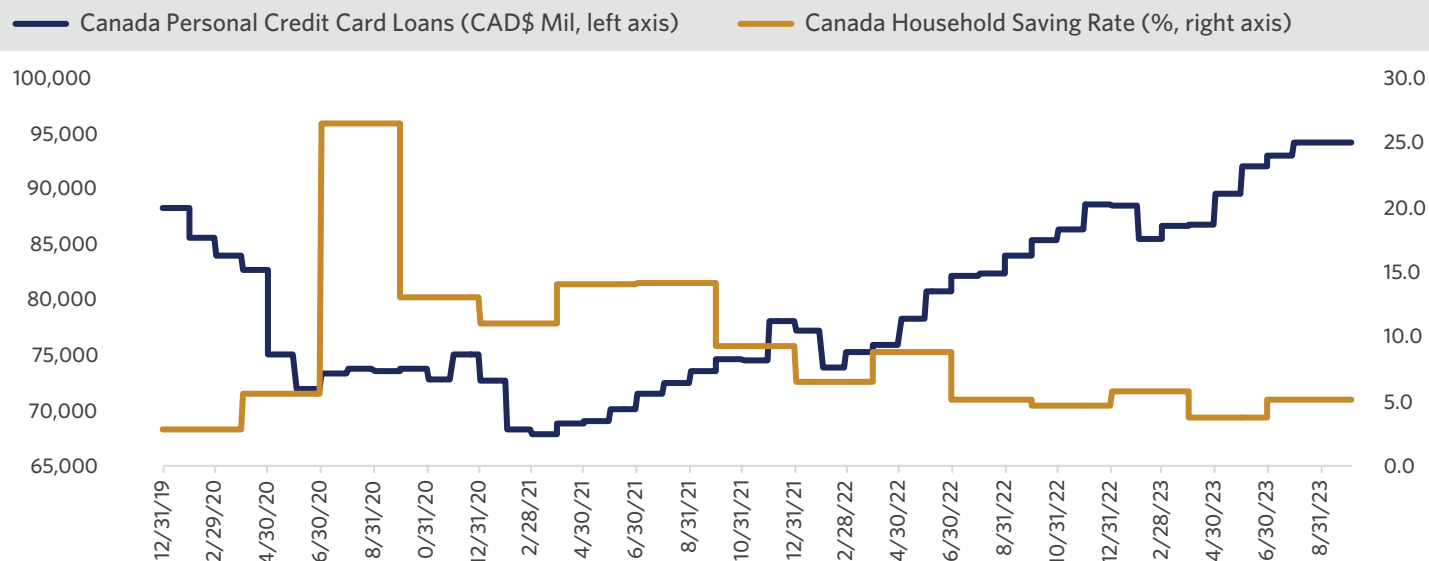
**Government bond yields reach highest levels in over 15 years** — Canadian government bond yields moved higher in Q3 pressuring equity and fixed-income returns. The 10-year yield rose to over 4% while the two-year yield rose to over 4.9%, both the highest levels since 2007. Equity markets declined in response, with communication services and utilities sectors the worst performers. Fixed-income markets were mixed with Canadian investment-grade and international bonds moving lower while international high yield and cash both returned over 1%.

**Oil prices rise over 25%** — Oil prices rose to over \$90 a barrel during Q3 in response to the OPEC+ announcement of extended production cuts through year-end. The surge in oil prices boosted returns for energy stocks, with the sector returning over 10% in the quarter. Higher energy prices flowed into domestic inflation data, with headline CPI rising 4% year over year in August, above a 3.3% rise in July. CPI excluding food and energy also ticked higher rising from 3.4% year over year in July to 3.6% in August driven by elevated shelter costs.

## ► Action for investors

The recent spike in volatility is a reminder to consider maintaining global diversification across your portfolio. Over the past 12 months, overseas large-cap stocks have been outperforming in the recommended equity asset class. Work with your financial advisor to help ensure your portfolio is appropriately diversified and aligned with your long-term goals.

Investing in equities involves risks. The value of your shares will fluctuate and you may lose principal. Special risks are inherent to international investing, including those related to currency fluctuations and foreign political and economic events.

Quarterly market outlook: **Fourth quarter 2023****Canadian savings rate declines, while credit card loans increase**

Source: Bloomberg

## Economic outlook

The Canadian economy has shown early signs of slowing after a resilient first quarter of 2023. Consumption in Canada has slowed, as interest rates remain elevated and early signs of labour market cooling have emerged. While we would not anticipate a deep or prolonged economic downturn, some softening in growth remains likely in the quarters ahead, for a few key reasons.

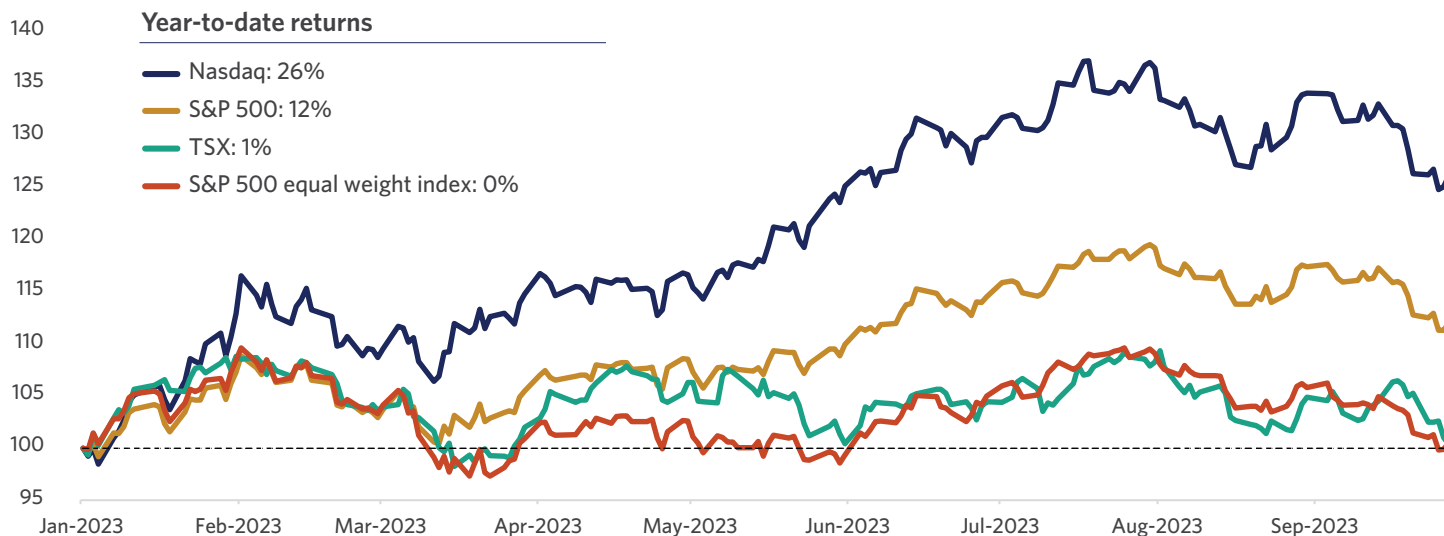
**The labour market may cool** — First, the labour market has started to show some early signs of easing. While the unemployment rate remains healthy at around 5.2%, metrics like job vacancies and quit rates are declining, while labour force participation (or workers re-entering the workforce) has moved above recent lows. This may spur some softening in the tight labour market and importantly continue to put downward pressure on wage gains.

**The consumer may come under some pressure** — Second, keep an eye on the Canadian consumer. While the consumer has remained resilient thus far, we are seeing household savings being drawn down and credit card debt levels rising. As the summer travel season comes to an end, Canadian interest rates remain elevated, mortgage rates are rising, and oil and energy prices have been volatile. Uncertainties around labour disputes, including the UAW (United Autoworkers) strikes, and a potentially softening U.S. consumer could weigh on consumption, particularly services consumption, going forward.

**Keep an eye on the Canadian housing market** — The Canadian housing market is facing higher mortgage rates broadly, with the 5-year conventional mortgage approaching 7.0%. Unlike the U.S., Canadian mortgages tend to be shorter in duration, and about 30% of mortgages outstanding are variable-rate, meaning they can reset higher over time. This has led to Canadian households spending more on mortgage debt servicing than any time in recent history. Overall, while we wouldn't expect excessive defaults on mortgages, the higher debt servicing could put some pressure on household consumption, weighing on growth broadly.

### ► Action for investors

Given the risks within the Canadian economy, we recommend investors underweight Canadian large-cap stocks. Consider reallocating toward U.S. large-cap stocks, given the relative strength of the U.S. economy.

Quarterly market outlook: **Fourth quarter 2023****A few stocks have driven this year's gains, but leadership could broaden out**

Source: Bloomberg. 2023 stock market index performance as of 10/5/2023  
Past performance is not indicative of future results.

## Equity outlook

High interest rates on the back of determined central banks took some wind out of the market's sails in Q3. However, we believe moderating inflation, recovering corporate profits, and an approaching end to the BoC's and Fed's rate hikes can support a positive outlook for the remainder of the year, especially for parts of the equity market that have lagged.

**Earnings recovery provides support** — Higher material and labour costs have pressured corporate profits, with TSX and S&P 500 earnings declining about 8% from last year's peak. But this decline was not as bad as feared since corporate revenue has continued to grow, driven by a resilient economy. After three consecutive quarters of declines, Q3 will likely mark a positive inflection point, with earnings poised to increase from a year ago. We expect earnings to rebound further in 2024, validating the broader uptrend in stocks.

**High interest rates pose valuation headwinds** — Valuations for U.S. large-cap stocks have increased over the past year, driven primarily by mega-cap tech stocks, which have benefited from enthusiasm around artificial intelligence (AI). With interest rates likely staying higher for longer, valuations might have a hard time expanding further from here. This is why we think earnings growth will have to do the heavy lifting to drive markets higher. Domestically, unlike the U.S., TSX valuations are below historic averages but might also have a hard time expanding as Canadian economic growth softens.

**Opportunities might lie beneath the surface** — Outside U.S. mega-cap tech, valuations are more reasonable, presenting an opportunity for regional and sector leadership to broaden over time. The S&P 500, which is heavily influenced by the 10 largest companies based on market capitalization, has gained about 12% since the start of the year. But the S&P 500 Equal Weight Index, which assigns the same weight to all the stocks that are included, has stayed flat for the year, highlighting the narrow participation. Other lagging segments of the equity market include small-cap and overseas stocks as well as value-style investments, all of which have the potential to catch up.

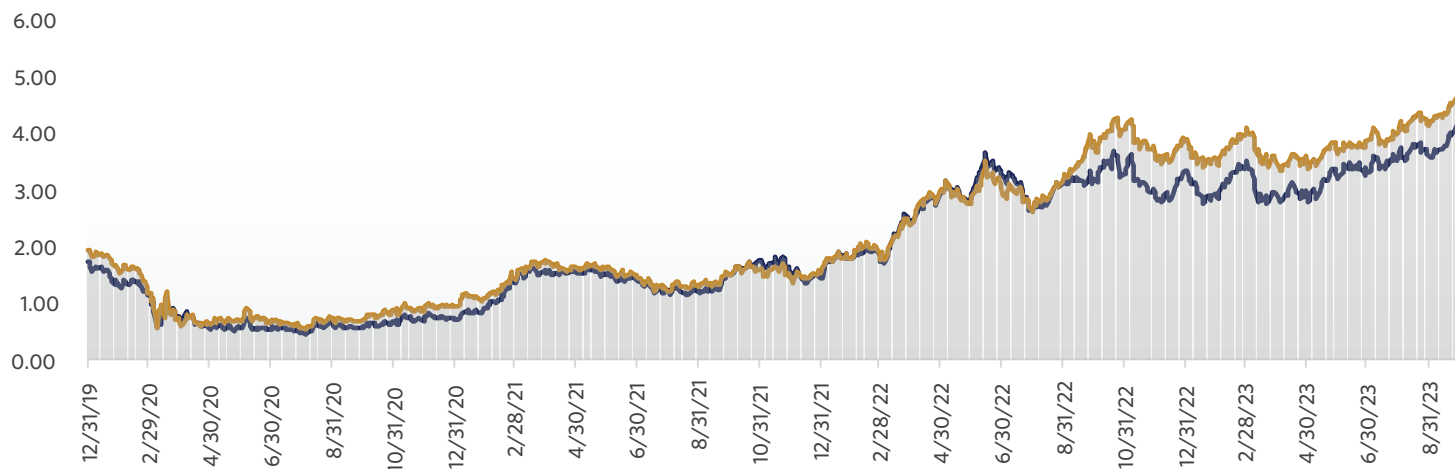
### ► Action for investors

We recommend considering a neutral allocation in equities, staying close to your long-term strategic allocations and using pullbacks to diversify across lagging asset classes. We favour increased allocations within consumer discretionary and reduced allocations to financials.

Investing in equities involves risks. The value of your shares will fluctuate and you may lose principal.

Quarterly market outlook: **Fourth quarter 2023****Canadian and U.S. 10-year government yields have climbed to highs for the cycle**

— Canadian 10-year government yield (%) — U.S. 10-year Treasury yield (%)



Source: Bloomberg

# Fixed-income outlook

The Canadian bond market has largely been driven by the direction of yields, which have risen substantially, both in Canada and the U.S., in recent months. Both the 10-year Canadian government bond and 10-year U.S. Treasury yields have risen to highs of the cycle, putting near-term pressure on both stocks and bonds.

**Bank of Canada (BoC) likely on hold** — The BoC kept rates steady at 5.0% at its September meeting. While the central bank highlighted that it was prepared to increase rates further if inflation showed signs of increasing, they also acknowledged that Canadian economic growth had slowed in recent months. Given that growth is expected to slow to below-trend levels, we believe the BoC is likely to keep rates steady through year-end. We see the potential for rate cuts as we head towards 2024, particularly if economic growth continues to stagnate.

**The Federal Reserve signals higher for longer** — At its September meeting, the Fed also underscored that it would continue to keep rates elevated until inflation moves more convincingly toward 2.0%. The Fed held rates steady at 5.25% - 5.5% but kept the option of an additional rate hike, maintaining its outlook for a peak fed funds rate of 5.6%. The Fed also signaled fewer potential rate cuts in 2024, from 1.0% to 0.5% of cuts next year - implying that

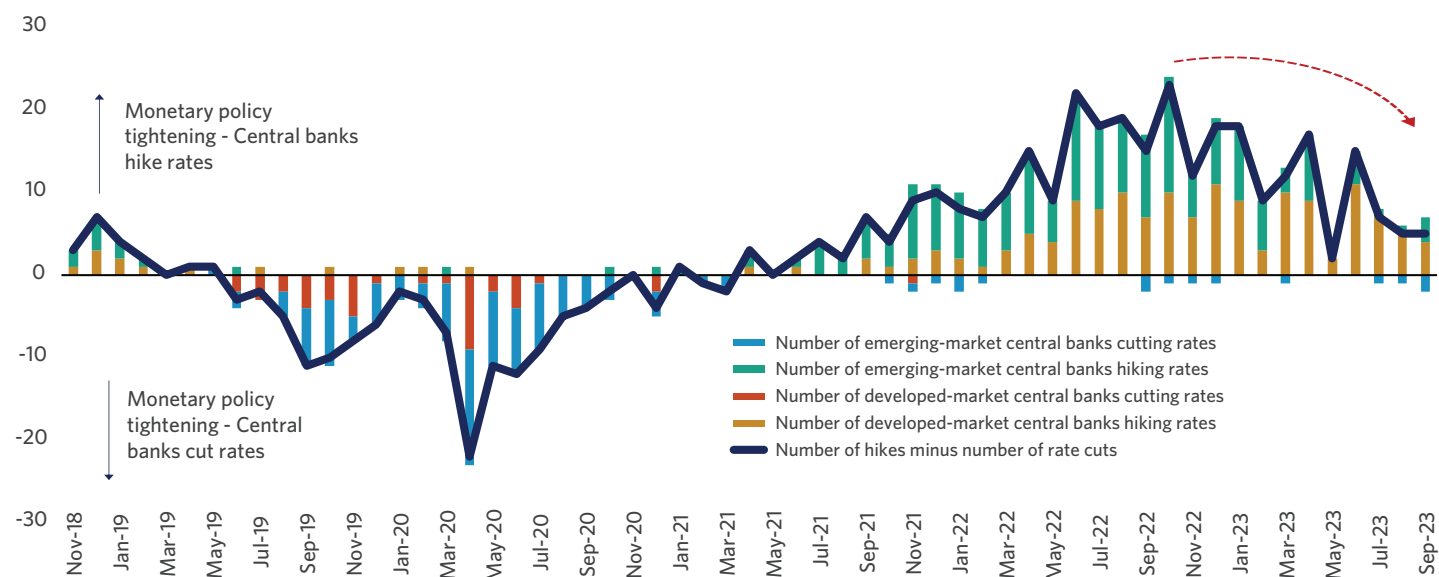
the elevated interest-rate environment may last longer than expected. While the Fed may be close to done with hikes, we would not, however, expect rate cuts until 2024. In the absence of a deep or prolonged downturn, we would expect the Fed to gradually bring rates back towards a neutral level, which may be around 2.5% - 3.0%.

**Balance cash with longer term bonds** — While short-duration cash-like instruments are now offering 5.0%+ yields, we would be weary of being too overweight in cash. There could be reinvestment risk as central banks pivot lower over time, and we also see attractive opportunities forming in longer-duration investment-grade bonds. Historically, one of the best predictors of forward bond returns is current yields, and if the Bank of Canada and the Fed are close to peak interest rates, this could be a favourable time for high-quality bonds. Not only can investors lock-in better rates for longer, but they have the chance for price appreciation if and when the central banks pivot lower.

## ► Action for investors

We recommend considering remaining neutral in fixed income relative to your long-term strategic asset allocations. Investors should remain mindful of being too overweight in cash-like assets, and we recommend complementing these with longer-duration bonds over time.

Before investing in bonds, you should understand the risks involved, including credit risk and market risk. Bond investments are also subject to interest rate risk such that when interest rates rise, the prices of bonds can decrease, and the investor can lose principal value if the investment is sold prior to maturity.

Quarterly market outlook: **Fourth quarter 2023****Many central banks are pausing rate hikes and looking to end their tightening campaigns**

Source: Bloomberg, Citi Economic Surprise Index.

## International outlook

While global growth is slowing, inflation is moderating, allowing central banks to pause. The U.S. economy has stayed resilient in the face of high borrowing costs, but its equity market is becoming increasingly concentrated. With this narrow market leadership, overseas diversification may help reduce portfolio volatility.

**Major economies move at different speeds** — A unique feature of the post-pandemic economy has been the disparate and uneven growth trends across regions. Japan's economy has surprised to the upside this year, driven by strong corporate spending, robust exports, and market-friendly regulatory reforms. With its equity market attracting foreign investors and still trading at low valuations, this year's outperformance could continue. In China, growth has disappointed as the property market deteriorated, but policymakers have announced measures to support it. We expect more volatility, but the stimulus efforts could lead to a stabilization ahead. Although Europe has avoided a recession, its economic momentum has faded as GDP growth in Germany — the region's largest economy — has contracted for two straight quarters. Downside risks for the region remain, and we are monitoring price pressures, which have moderated at a slower pace than in Canada and the U.S.

**Central banks look to end their rate hikes** — The renewed rally in bond yields in August and September pressured stocks and bonds, with all major global equity indexes posting losses in Q3. While most central banks are not rushing to cut interest rates, they are signaling a pause in rates hikes and likely the end of their tightening cycles by year-end. Notable progress in inflation, together with central banks applying less pressure on the brakes, could help improve performance in the quarters ahead.

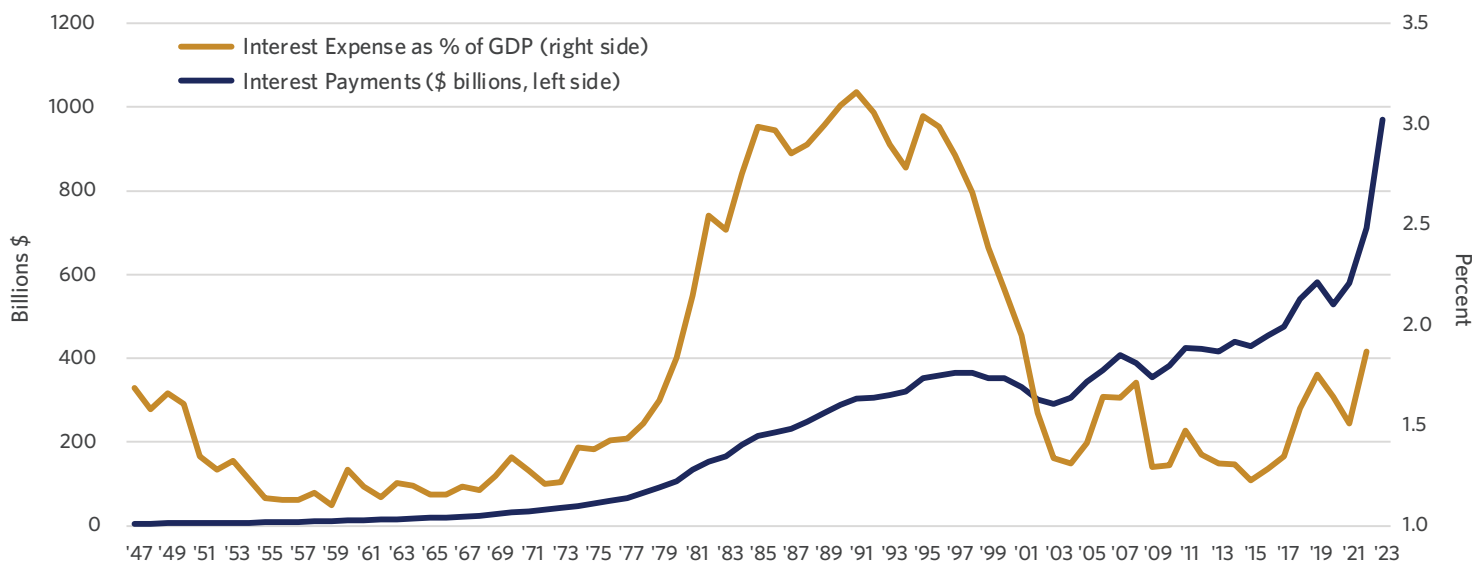
**Valuations reflect low expectations** — While global risks remain, we believe many are already reflected in overseas equity markets. Developed-market stocks are trading at a 30% discount to U.S. stocks (versus their 12% historical discount), while emerging-market equities are at a 40% discount (versus their 25% historical discount). With the difference between Canada and European policy rates likely to narrow, the euro could strengthen relative to the loonie, also helping overseas returns.

### ► Action for investors

We remain neutral on overseas developed and emerging-market stocks and recommend considering staying close to the strategic, long-term allocations. Attractive valuations better reflect the weaker growth outlook, while international diversification may help reduce portfolio volatility.

Investing in equities involves risks. The value of your shares will fluctuate and you may lose principal. Special risks are inherent to international investing, including those related to currency fluctuations and foreign political and economic events.

Diversification does not ensure profit or protect against loss in a declining market.

Quarterly market outlook: **Fourth quarter 2023****Rising interest costs add to U.S. budget pressures**

\*Source: St. Louis Fed. Annualized interest payments as of Q2 2023.

## What's the outlook for U.S. government debt?

We've been increasingly concerned by the elevated levels of household debt in Canada as it poses potential headwinds to consumer spending and the housing market amid the recent rise in interest rates. The domestic government debt situation is far less of a challenge in our view. That said, elevated U.S. government debt is a well-documented source of anxiety for financial markets. While U.S. federal debt has risen faster in recent years, higher interest rates pose the added challenge of sharply higher annual interest payments. If rates begin to ease, as we expect, this will relieve some pressure, but mounting government debt will remain a broader-term risk. We don't see the U.S. debt situation being a near-term threat to the economy, but we do believe it will require tough fiscal choices down the road.

**Rising interest rates add to budget stress** — While central bank interest rate hikes have been in the spotlight in terms of the implications for the economy and financial market performance, higher rates also raise the cost of government financing. Annual U.S. interest expense is poised to reach \$1 trillion, a figure that has doubled since 2017. While sizable, interest expense is still near 2% of GDP. For perspective, this figure exceeded 3% in the early 1990s. But rising interest payments are adding to the budget deficit while rating agencies are evaluating government downgrades and partisan budget battles have threatened a U.S. government shutdown. Interest payment pressure should subside somewhat as interest rates pull back from this year's highs. But we don't expect the return of the cheap government financing we saw when interest rates trended near historic lows. To us, this poses the potential for some federal spending constraint in 2024, relative to the significant jump in government outlays over the past year. This could present an additional headwind to GDP growth.

**Federal debt is a future risk** — On a federal debt-to-GDP basis, Canada remains in an enviable position relative to its G7 counterparts, with a ratio that is well under half of that in the U.S. Total U.S. federal government debt is \$32 trillion and counting, a trend that, left unaddressed, will prove problematic down the road. We don't believe a default is realistic, but the debt load could reach a level at which it begins to crowd out private spending and investment. One solution would be to target an annual budget deficit that is below the growth rate of nominal GDP. The U.S. economy's resiliency is an advantage, but we doubt this will eliminate the need for tough fiscal decisions that, in our view, will include potential adjustments to taxes and spending, a domestic approach that was implemented three decades ago to address Canada's elevated government debt levels. Entitlements such as Social Security, Medicaid and Medicare — which combine for nearly half of annual U.S. federal spending — may be up for discussion, though likely not for another decade or two.

### ► Action for investors

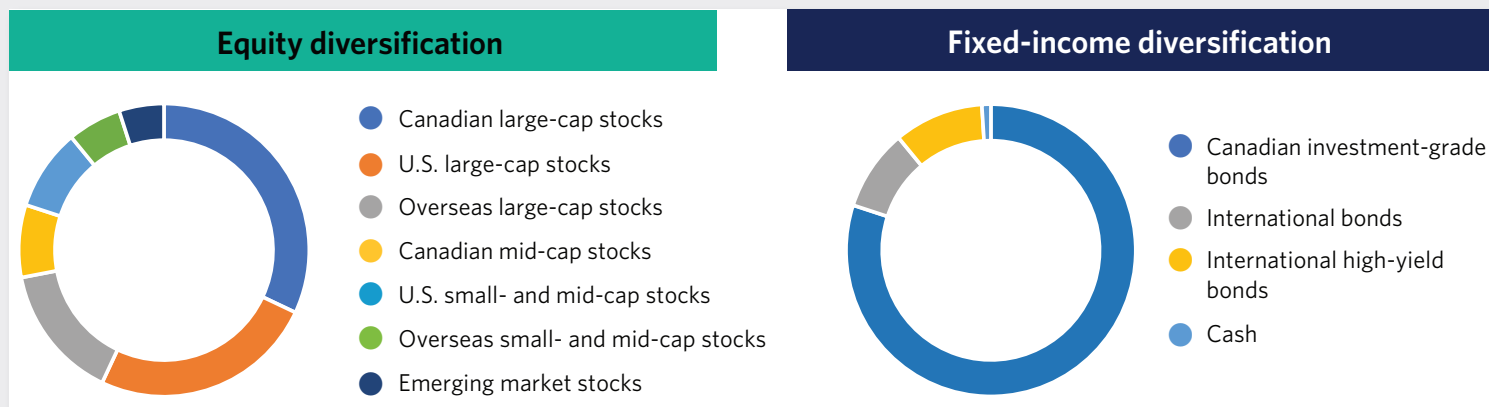
Don't let doomsday predictions of an impending debt crisis derail your strategy or your portfolio decisions. We think Government of Canada and U.S. Treasury bonds remain a secure investment and should be part of a well-diversified fixed-income allocation.

Before investing in bonds, you should understand the risks involved, including credit risk and market risk. Bond investments are also subject to interest rate risk such that when interest rates rise, the prices of bonds can decrease, and the investor can lose principal value if the investment is sold prior to maturity.

Quarterly market outlook: **Fourth quarter 2023**

# Strategic asset allocation guidance

Our Strategic Asset Allocation represents our view of balanced diversification for the fixed income and equity portions of a well-diversified portfolio based on our outlook for the economy and markets over the next 30 years. The exact weightings (neutral weights) to each asset class will depend on the broad allocation to equity and fixed-income investments that most closely aligns to your comfort with risk and financial goals.



# Opportunistic asset allocation guidance

Our **opportunistic asset allocation** represents our timely investment advice based on current market conditions and our outlook over the next one to three years. We believe incorporating this guidance into your portfolio may enhance your potential for greater returns without taking on unintentional risk.

	Underweight	Neutral	Overweight
<b>Equity</b>	●	●	●
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	●	●	●
<b>Fixed income</b>	●	●	●
Canadian investment-grade bonds	●	●	●
International bonds	●	●	●
International high-yield bonds	●	●	●
Cash	●	●	●

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.

Quarterly market outlook: **Fourth quarter 2023**

# Investment performance benchmarks

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 September 30, 2023

Asset class performance				
Total returns	Q3	1-year	3-year	5-year
Cash	1.2%	4.4%	1.8%	1.7%
Canadian Investment Grade Bonds	-3.9%	-1.4%	-5.1%	0.1%
Int'l High Yield Bonds	2.0%	11.6%	0.3%	2.4%
Int'l Bonds	-2.0%	1.6%	-4.0%	0.2%
Canadian Large-cap Stocks	-2.2%	9.5%	9.9%	7.3%
U.S. Large-cap Stocks	-1.2%	19.7%	10.6%	10.9%
Overseas Large-cap Stocks	-2.0%	23.6%	6.2%	4.2%
Canadian Mid-cap Stocks	-0.7%	12.9%	9.3%	5.9%
U.S. Small-and Mid-cap Stocks	-2.7%	9.5%	8.8%	5.5%
Overseas Small- and Mid-cap Stocks	-1.7%	18.6%	1.7%	1.7%
Emerging Market Stocks	-0.7%	10.4%	-0.9%	1.8%

Canadian equity sector performance				
Total returns	Q3	1-year	3-year	5-year
Technology	-7.52	53.6	-5.8	15.7
Consumer Discretionary	-7.08	12.5	11.7	6.5
Energy	10.27	17.4	33.8	9.1
Materials	-3.76	4.7	-0.4	9.2
Industrials	-4.22	11.8	9.6	9.4
Financials	-2.61	4.4	13.4	6.4
Real Estate	-6.05	3.4	4.5	1.7
Health Care	14.48	3.4	-22.5	-30.8
Communication Services	-12.55	-5.3	4.0	3.8
Consumer Staples	-1.18	12.6	9.7	12.0
Utilities	-11.96	-14.3	-0.8	7.7

Source: Morningstar Direct, 9/30/2023. 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.