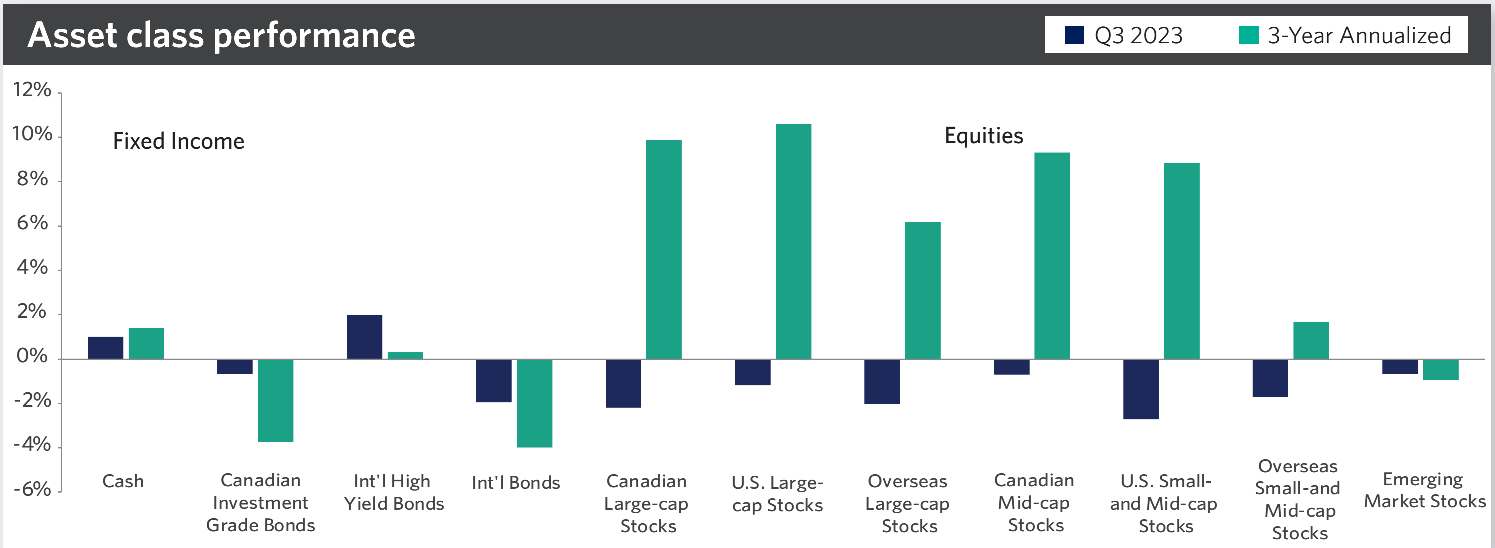
Quarterly market outlook: **Fourth quarter 2023**

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 3rd 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 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.

