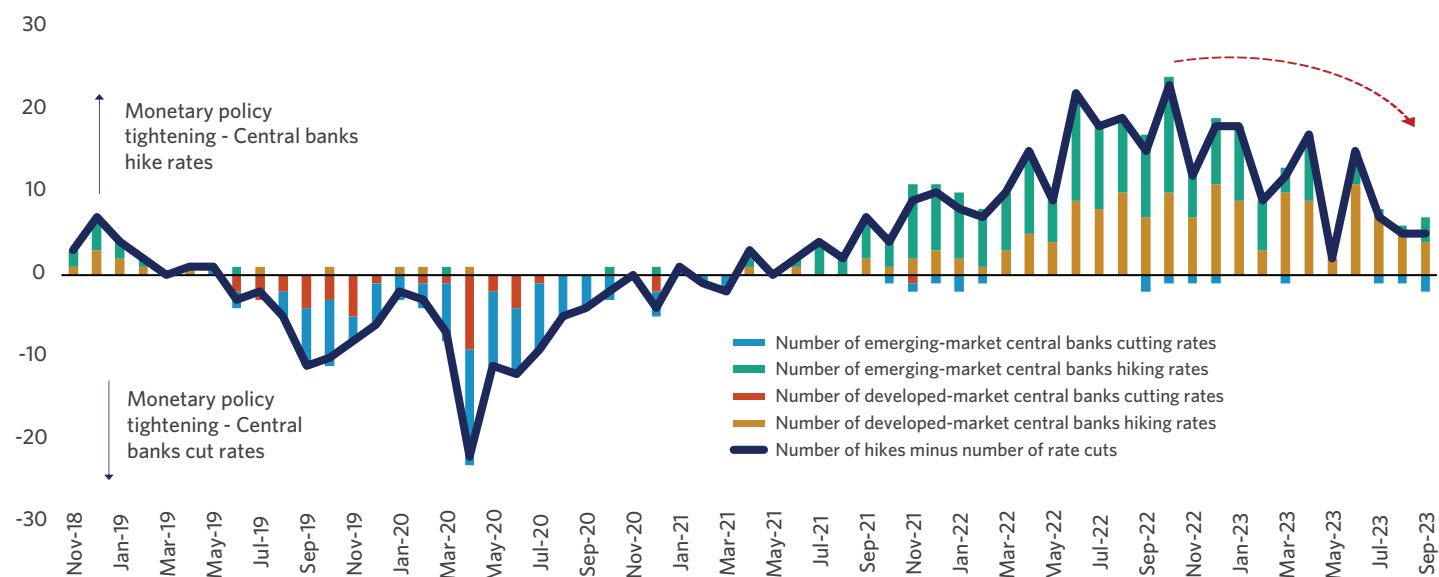


Quarterly market outlook: **Fourth quarter 2023****Many central banks are pausing rate hikes and looking to end their tightening campaigns**

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.