2024 OUTLOOK

Are we heading into a recession or recovery? Why not both?

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2024 Outlook

Following what was a disappointing 2022, investors entered 2023 with hope, exhaustion and trepidation. A second year of negative market returns was feared, but the less likely scenario for 2023. We came into the year with a general theme of "peaks and troughs" and, for the most part, that is what we've seen. Inflation has slowed materially, many central banks have come to the end of their interest rate hikes, and many equity indices have enjoyed gains from their lows of last year.

That isn't to suggest that it's been a smooth ride for investors. Geopolitics, policy uncertainty, recession fears and volatility continued to test investors' resolve. But is this anything new? While investors may feel as if "this time it's different", our feelings can deceive us. In truth, we would argue that the equity market volatility, while uncomfortable, was well within the norm.

The world of investing is a dynamic and ever-evolving landscape, rife with opportunities and challenges. It's in these fluctuations and uncertainties that we find our greatest test: the ability to distinguish between the transitory noise of the markets and media, and the enduring quality of the asset classes in which we invest.

As we navigate through these uncertain times, we tend to revisit our fundamental tenets. Our philosophy when it comes to investment strategy is simply to ask: "How do we best position ourselves for what's in front of us?" We focus on identifying where we are in the economic cycle, the direction for earnings growth, and inflation and interest rates, among other factors. Be aware of valuation (but don't fixate on it) and understand that any short-term fickle nature of the market isn't reflective of the longer-term opportunity. Despite any uncertainty, it's the data-driven approach to investment strategy and consistency of process that will keep us on the right path.

In the pages that follow, we'll delve into our outlook for 2024, highlighting the opportunities across markets, regions and asset classes, and where we can best capitalize on them in the coming year.

Are we headed for a recession or recovery?

- **In 2023, the revolution of artificial intelligence brought equity markets to new heights.**
- **Central banks across the globe, in a coordinated effort, fought off high inflation and may have achieved their goal.**
- **We saw global conflict continue in eastern Europe and more turmoil in the Middle East with several unknown factors at play.**

As we look ahead to 2024, we reflect on some of the key events that shaped the markets in 2023. In particular, the continued increase in central bank rates that in the United States triggered the collapse of Silicon Valley Bank, marking the second largest bank failure in U.S. history after Washington Mutual's in 2008. The domino effect continued, with Signature Bank and First Republic succumbing to similar fates. Across the ocean, Credit Suisse found refuge in a rescue manoeuvre orchestrated by the larger UBS. However, the banking crisis that loomed large quickly receded, thanks to the swift actions of the U.S. Federal Reserve. The central bank employed a series of measures to fortify balance sheets, restoring stability to the American banking system.

As inflation continued to ease, so did market expectations for further interest rate increases. That didn't stem market yields from rising however, as record bond issuance out of the U.S. Treasury and a continued unwind of the Fed's balance sheet had the combined impact of increasing supply and easing demand, and pushed the benchmark 10-year U.S. Treasury yield near 5%.

We see the lower inflation across many economies leading to a pause of further interest rate increases by central bankers. Already the futures market is pricing in a pause by the Bank of Canada, U.S. Federal Reserve, Bank of England, Reserve Bank of New Zealand, the European Central Bank and Swiss National Bank, to name just a few. We see the current yield environment, along with the likely pause by central bankers, as a positive for bond returns going forward. Over the long term, higher interest rates can indeed be a boon for fixed income investors.

Of course, a summary of 2023 wouldn't be complete without addressing the question of recessions and where we are in the economic cycle. The recession question has probably taken up more airtime than deserved. It's essential to remember that the 2020 recession was a once-in-a-lifetime anomaly, and the economic cycle since has unfolded in decidedly non-standard fashion. It's only logical to expect that any subsequent economic slowdown would follow suit, charting its own unique course in these extraordinary times.

As the year moved on, six themes emerged out of the data as potential drivers for the markets in 2024.

Six key themes for 2024

Click on each theme for more information

01 Recessions come in all shapes and sizes

One size does not fit all. The global economy is a composite of many inter-connected regional economies with their own unique characteristics and paths. We would argue what we're seeing play out in economies around the world is best characterized as "rolling recessions".

02 We're in a new labour paradigm

Labour markets remain tight in many areas around the world. We recognize that unemployment is a lagging indicator in economic recessions. However, demographics have resulted in a scarcity of labour in the face of slowing economic activity. Lower unemployment may keep consumption positive.

03 Inflation and interest rates are normalizing

Inflation pressures have eased, allowing central banks to pause with further interest rate increases. Long-term bond yields are within historical ranges. Over the long term, higher interest rates can indeed be a boon for fixed income investors.

04 Valuation remains attractive

In the United States, the "magnificent seven"* contributed a disproportionate amount to the gains in the S&P 500 Index in 2023. Excluding the seven, the S&P 500 Index reflects a valuation in line with the historical average. Equity values are attractive across many indices. We believe 2024 may see an improved earnings environment alongside an attractive valuation.

05 Geopolitical risks are likely to contribute to volatility

Aside from the continued uncertainty from conflicts in Eastern Europe and the Middle East, 2024 is also an election year in the United States. Headline risk can drive investor sentiment and contribute to short-term market volatility. We believe investors will need to pay particular attention to distinguish between sentiment-driven volatility and fundamental-driven volatility.

06 What if it goes right?

We believe investors may be putting too much focus on the negative and not enough on the trends in recent data. Current data that leads economic and earnings cycles implies an inflection point that could indicate an improving environment.

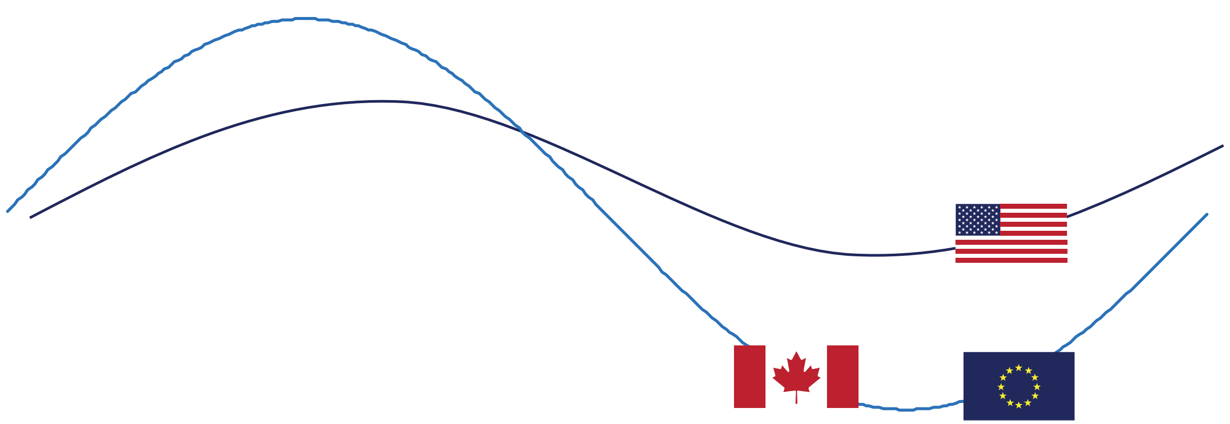
*Amazon, Apple, Alphabet, Microsoft, Meta, Nvidia and Tesla.

The concept of rolling recessions

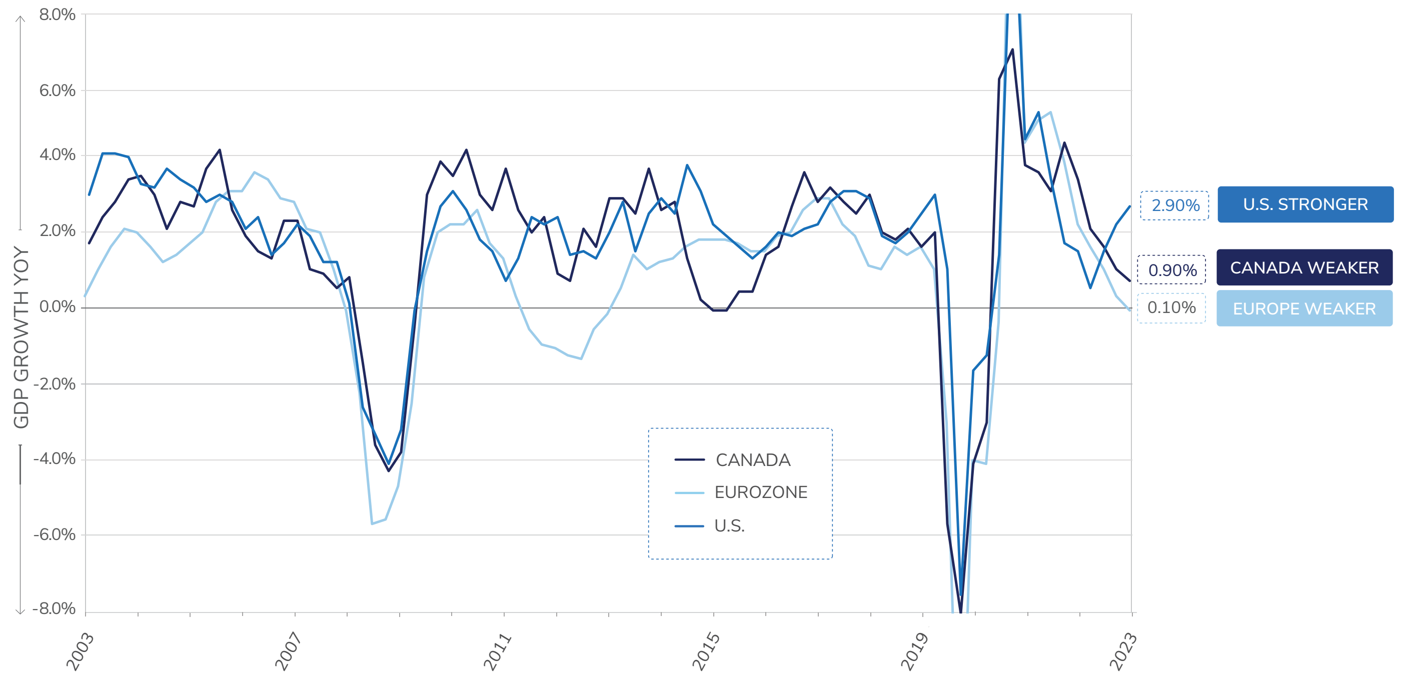
Rolling recessions spotlight the rhythm of sectoral ebbs and flows within an economy. As one sector starts to recover, another might temporarily face a slowdown. Unlike a blanket recession that casts a uniform shadow, these manifest as fleeting soft patches in select sectors, with others either remaining untouched or on an upswing. This pattern, akin to an economic relay race, is more common than nationwide downturns. It sketches an economy that, despite sporadic challenges, retains resilience at its core.

Each rolling recession, while hinting at something more ominous, often paves the way for rejuvenation as it transitions from one sector to another over time. It's a testament to an economy's ability to self-correct and continue its march forward. Through these transient economic phases, a disciplined, long-term investment strategy helps navigate the unfolding economic narrative, keeping our focus on the horizon of sustainable growth. This dance of rolling recessions isn't a sign of perpetual gloom, but a glimpse into the dynamic self-correcting nature of market economies, ensuring a perpetual motion towards long-term financial vigour.

HOUSING → MANUFACTURING → EARNINGS → EMPLOYMENT



Canada | U.S. | Europe GDP growth YoY - last 20 years



Source: IG Wealth Management, Bloomberg as of September, 2023.

The risks of U.S. economic recession have decreased for 2024

An economic “soft-landing” is often described as an environment of higher interest rates to combat inflation without causing unemployment to go up drastically or GDP growth to go negative. We believe there is economic data that shows some aspects of the U.S. economy are more consistent with a recovery than a recession. Manufacturing activity is showing signs of a bottom, housing prices are no longer falling and the Conference Board’s Index of Leading Indicators appears to be at a trough.

On a year-over-year basis, we have seen recessionary pressures in the United States ease. And while the risk of recession remains, we believe the probability will be much lower over the next 12 months than what we saw a year ago.

The beginning of 2023 had a significant yield curve inversion, but the year ended with a flattening coming from the long end. We expect this process to continue into 2024, with steepening from the short end as well, as the Fed signals a shift from interest rate hikes to cuts.

Historically, transitioning from an inverted to a normal yield curve often signifies the economy’s curtain call and the onset of a recession. However, we argue that certain sectors of the economy have already played their role in this drama, and the yield curve steepening might merely indicate the beginning of another stage of the economic cycle, namely recovery.

RISK	PRIOR CONDITION	PRESENT CONDITION
Inverted yield curve	Yes	Yes
Declining manufacturing output	Yes	No
Inflationary shock	Yes	No
Tight financial conditions	No	No
Declining housing starts	Yes	Yes
Increasing unemployment	No	Yes
Negative leading economic indicators	Yes	Yes

Manufacturing appears to be at the bottom of the cycle

The global manufacturing economy has already experienced a recession. Our heat map of global manufacturing activity shows on a rolling two-year basis the level of activity by country, as measured by the regional Manufacturing Purchasing Managers' Indices.

As we advanced into 2023, manufacturing activity in many economies started to contract (with the index falling below 50). We have seen a significant contraction in manufacturing activity across many areas around the world. The manufacturing growth levels are more consistent with a bottoming of activity as opposed to an emerging recession. We believe we are starting to see the potential for a recovery in manufacturing in 2024.

Twenty-four month heat map of global manufacturing activity
Manufacturing Purchasing Managers' Indices as of October 2023

	Oct-21	Nov-21	Dec-21	Jan-22	Feb-22	Mar-22	Apr-22	May-22	Jun-22	Jul-22	Aug-22	Sep-22	Oct-22	Nov-22	Dec-22	Jan-23	Feb-23	Mar-23	Apr-23	May-23	Jun-23	Jul-23	Aug-23	Sep-23	Oct-23
Global	54.2	54.2	54.3	53.2	53.7	53.0	52.3	52.4	52.2	51.1	50.3	49.8	49.4	48.8	48.7	49.1	49.9	49.6	49.6	49.5	48.7	48.6	49.0	49.2	48.8
USA	58.4	58.3	57.7	55.5	57.3	58.8	59.2	57.0	52.7	52.2	51.5	52.0	50.4	47.7	46.2	46.9	47.3	49.2	50.2	48.4	46.3	49.0	47.9	49.8	50.0
Canada	57.7	57.2	56.5	56.2	56.6	58.9	56.2	56.8	54.6	52.5	48.7	49.8	48.8	49.6	49.2	51.0	52.4	48.6	50.2	49.0	48.8	49.6	48.0	47.5	48.6
Mexico	49.3	49.4	49.4	46.1	48.0	49.2	49.3	50.6	52.2	48.5	48.5	50.3	50.3	50.6	51.3	48.9	51.0	51.0	51.1	50.5	50.9	53.2	51.2	49.8	52.1
UK	57.8	58.1	57.9	57.3	58.0	55.2	55.8	54.6	52.8	52.1	47.3	48.4	46.2	46.5	45.3	47.0	49.3	47.9	47.8	47.1	46.5	45.3	43.0	44.3	44.8
Eurozone	58.3	58.4	58.0	58.7	58.2	56.5	55.5	54.6	52.1	49.8	49.6	48.4	46.4	47.1	47.8	48.8	48.5	47.3	45.8	44.8	43.4	42.7	43.5	43.4	43.1
Germany	57.8	57.4	57.4	59.8	58.4	56.9	54.6	54.8	52.0	49.3	49.1	47.8	45.1	46.2	47.1	47.3	46.3	44.7	44.5	43.2	40.6	38.8	39.1	39.6	40.8
France	53.6	55.9	55.6	55.5	57.2	54.7	55.7	54.6	51.4	49.5	50.6	47.7	47.2	48.3	49.2	50.5	47.4	47.3	45.6	45.7	46.0	45.1	46.0	44.2	42.8
Italy	61.1	62.8	62.0	58.3	58.3	55.8	54.5	51.9	50.9	48.5	48.0	48.3	46.5	48.4	48.5	50.4	52.0	51.1	46.8	45.9	43.8	44.5	45.4	46.8	44.9
Spain	57.4	57.1	56.2	56.2	56.9	54.2	53.3	53.8	52.6	48.7	49.9	49.0	44.7	45.7	46.4	48.4	50.7	51.3	49.0	48.4	48.0	47.8	46.5	47.7	45.1
Holland	62.5	60.7	58.7	60.1	60.6	58.4	59.9	57.8	55.9	54.5	52.6	49.0	47.9	46.0	48.6	49.6	48.7	46.4	44.9	44.2	43.8	45.3	45.9	43.6	43.8
Austria	60.6	58.1	58.7	61.5	58.4	59.3	57.9	56.6	51.2	51.7	48.8	48.8	46.6	46.6	47.3	48.4	47.1	44.7	42.0	39.7	39.0	38.8	40.6	39.6	41.7
Greece	58.9	58.8	59.0	57.9	57.8	54.6	54.8	53.8	51.1	49.1	48.8	49.7	48.1	48.4	47.2	49.2	51.7	52.8	52.4	51.5	51.8	53.5	52.9	50.3	50.8
Ireland	62.1	59.9	58.3	59.4	57.8	59.4	59.1	56.4	53.1	51.8	51.1	51.5	51.4	48.7	48.7	50.1	51.3	49.7	48.6	47.5	47.3	47.0	50.8	49.6	48.2
Poland	53.8	54.4	56.1	54.5	54.7	52.7	52.4	48.5	44.4	42.1	40.9	43.0	42.0	43.4	45.6	47.5	48.5	48.3	46.6	47.0	45.1	43.5	43.1	43.9	44.5
Czech Republic	55.1	57.1	59.1	59.0	56.5	54.7	54.4	52.3	49.0	46.8	46.8	44.7	41.7	41.6	42.6	44.6	44.3	44.3	42.8	42.8	40.8	41.4	42.9	41.7	42.0
China (Caixin)	50.6	49.9	50.9	49.1	50.4	48.1	46.0	48.1	51.7	50.4	49.5	48.1	49.2	49.4	49.0	49.2	51.6	50.0	49.5	50.9	50.5	49.2	51.0	50.6	49.5
China	49.2	50.1	50.3	50.1	50.2	49.5	47.4	49.6	50.2	49.0	49.4	50.1	49.2	48.0	47.0	50.1	52.6	51.9	49.2	48.8	49.0	49.3	49.7	50.2	49.5
South Korea	50.2	50.9	51.9	52.8	53.8	51.2	52.1	51.8	51.3	49.8	47.6	47.3	48.2	49.0	48.2	48.5	48.5	47.6	48.1	48.4	47.8	49.4	48.9	49.9	49.8
Taiwan	58.3	59.5	59.3	56.2	58.8	57.8	56.3	53.5	53.6	47.8	47.2	44.9	45.4	43.9	43.7	40.4	51.4	47.3	42.8	41.3	48.3	46.1	45.5	48.2	47.1
Vietnam	52.1	52.2	52.5	53.7	54.3	51.7	51.7	54.7	54.0	51.2	52.7	52.5	50.6	47.4	46.4	47.4	51.2	47.7	46.7	45.3	46.2	48.7	50.5	49.7	49.6
Indonesia	57.2	53.9	53.5	53.7	51.2	51.3	51.9	50.8	50.2	51.3	51.7	53.7	51.8	50.3	50.9	51.3	51.2	51.9	52.7	50.3	52.5	53.3	53.9	52.3	51.5
Malaysia	52.2	52.3	52.8	50.5	50.9	49.6	51.6	50.1	50.4	50.6	50.3	49.1	48.7	47.9	47.8	46.5	48.4	48.8	48.8	47.8	47.7	47.8	47.8	46.8	46.8
Singapore	50.8	50.6	50.7	50.6	50.2	50.1	50.3	50.4	50.3	50.1	50.0	49.9	49.7	49.8	49.7	49.8	50.0	49.9	49.7	49.5	49.7	49.8	49.9	50.1	50.2
Japan	53.2	54.5	54.3	55.4	52.7	54.1	53.5	53.3	52.7	52.1	51.5	50.8	50.7	49.0	48.9	48.9	47.7	49.2	49.5	50.6	49.8	49.6	49.6	48.5	48.7
Australia	58.2	59.2	57.7	55.1	57.0	57.7	58.8	55.7	56.2	55.7	53.8	53.5	52.7	51.3	50.2	50.0	50.5	49.1	48.0	48.4	48.2	49.6	49.6	48.7	48.2
Brazil	51.7	49.8	49.8	47.8	49.6	52.3	51.8	54.2	54.1	54.0	51.9	51.1	50.8	44.3	44.2	47.5	49.2	47.0	44.3	47.1	46.6	47.8	50.1	49.0	48.6
Russia	51.6	51.7	51.6	51.8	48.6	44.1	48.2	50.8	50.9	50.3	51.7	52.0	50.7	53.2	53.0	52.6	53.6	53.2	52.6	53.5	52.6	52.1	52.7	54.5	53.8
India	55.9	57.6	55.5	54.0	54.9	54.0	54.7	54.6	53.9	56.4	56.2	55.1	55.3	55.7	57.8	55.4	55.3	56.4	57.2	58.7	57.8	57.7	58.6	57.5	55.5
Turkey	51.2	52.0	52.1	50.5	50.4	49.4	49.2	49.2	48.1	46.9	47.4	46.9	46.4	45.7	48.1	50.1	50.1	50.9	51.5	51.5	51.5	49.9	49.0	49.6	48.4
Saudi Arabia	57.7	56.9	53.9	53.2	56.2	56.8	55.7	55.7	57.0	56.3	57.7	56.6	57.2	58.5	56.9	58.2	59.8	58.7	59.6	58.5	59.6	57.7	56.6	57.2	58.4
UAE	55.7	55.9	55.6	54.1	54.8	54.8	54.6	55.6	54.8	55.4	56.7	56.1	56.6	54.4	54.2	54.1	54.3	55.9	56.6	55.5	56.9	56.0	55.0	56.7	57.7

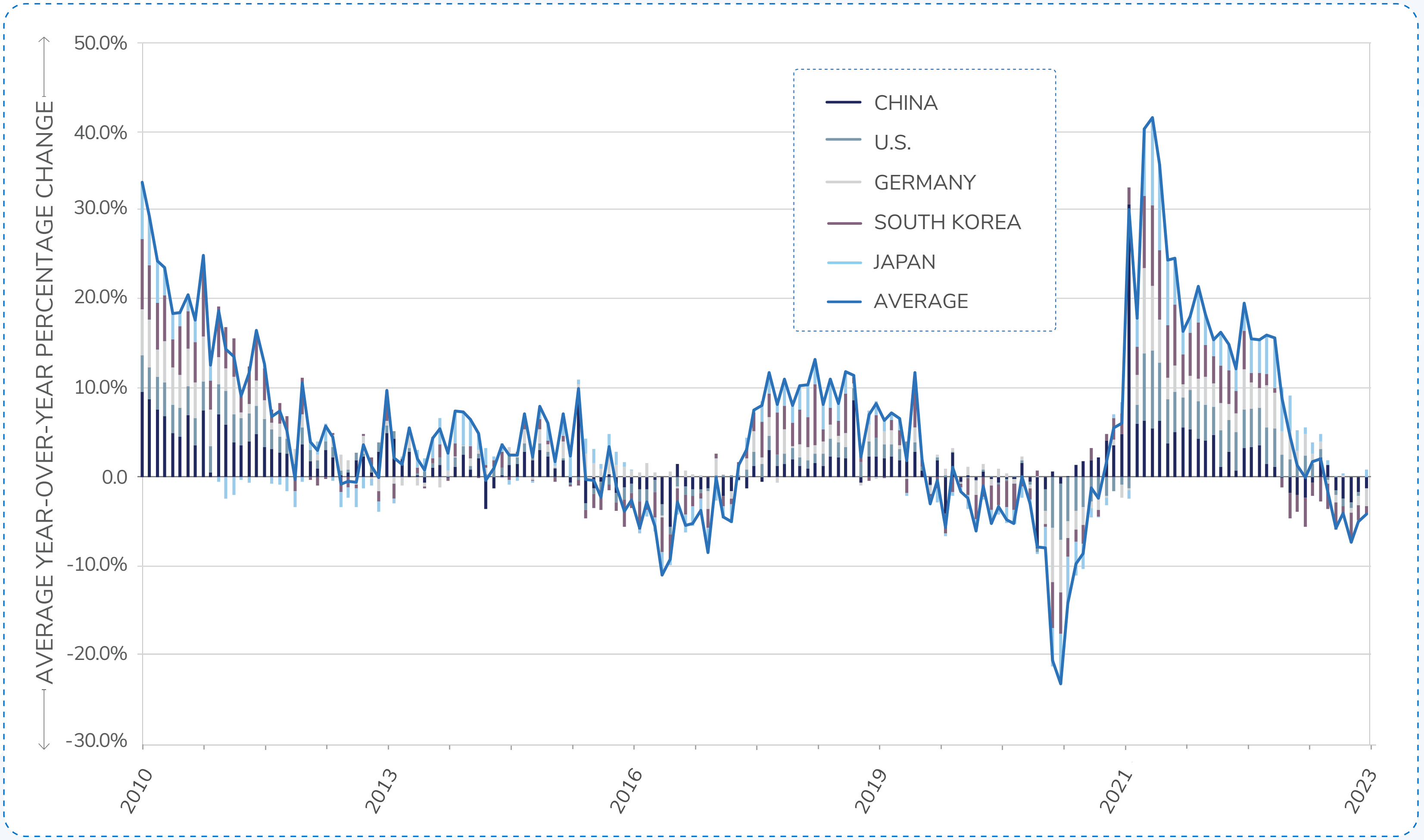
Source: IG Wealth Management, Bloomberg as of October 31, 2023.

Global trade may be bottoming

We monitor year-over-year export growth of the five largest exporters to gain a sense for global demand. These include China, the United States, Germany, South Korea and Japan.

On a year-over-year basis, average trade growth reached a low point for this cycle in July. In the two months since, we have started to see modest improvement. In particular, South Korea has seen positive year-over-year export growth for the first time in 13 months. South Korea, as a bellwether for the global economy, may indicate that exports are on the verge of improvement. This would indicate the start of a recovery in the global economic cycle.

Visual representation of global export growth, 2010-current



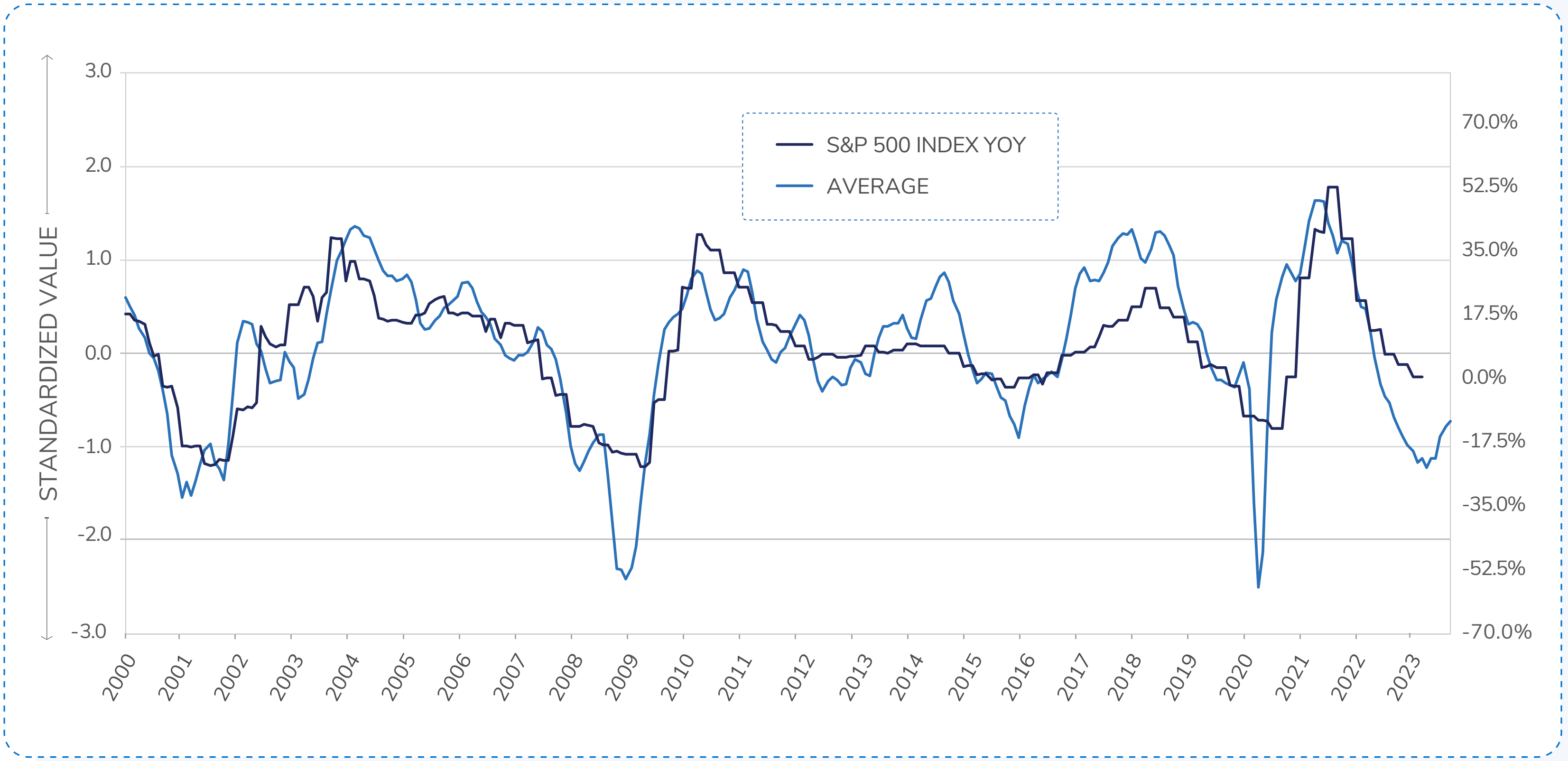
Source: IG Wealth Management, Bloomberg as of September 30, 2023.

U.S. manufacturing growth emerging from recessionary territory

Our proprietary Brass Tacks Index measures the deviation of current manufacturing growth in the United States (as an aggregate of regional indices) against the long-term average. Currently, U.S. manufacturing growth has recovered from the lows of the summer and sits above recessionary levels.

Earlier in the year, U.S. manufacturing was at a level consistent with prior recessions, but this is no longer the case. Manufacturing activity is now consistent with what we would see during a recovery. This also suggests the potential for an earnings recovery for the S&P 500 Index in 2024.

Brass Tacks Index vs S&P 500 Index EPS year-over-year (lagged six months) 2000 - current



Source: IG Wealth Management, Bloomberg as of October 31, 2023.

Canada's economy is weaker than our southern neighbour's

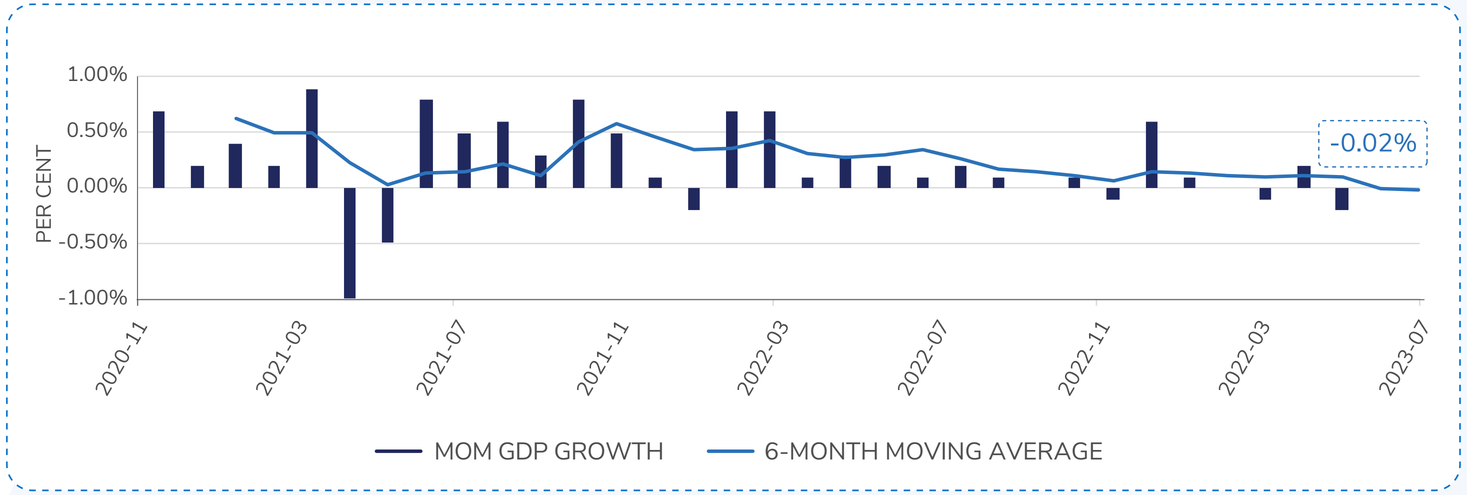
The concept of rolling recessions extends itself to Canada as well. And unfortunately, the Canadian consumer has borne the brunt of the interest rate increases in the form of higher mortgage interest costs. As a result, the Canadian economy faces headwinds.

Our economic growth was weaker than that of the United States through the first eight months of 2023, for many reasons. These include our economy being less diversified and still heavily reliant on resources and housing for economic growth. Additionally, Canadian consumers are more vulnerable to interest rate increases than Americans, owing to differences in mortgage structures.

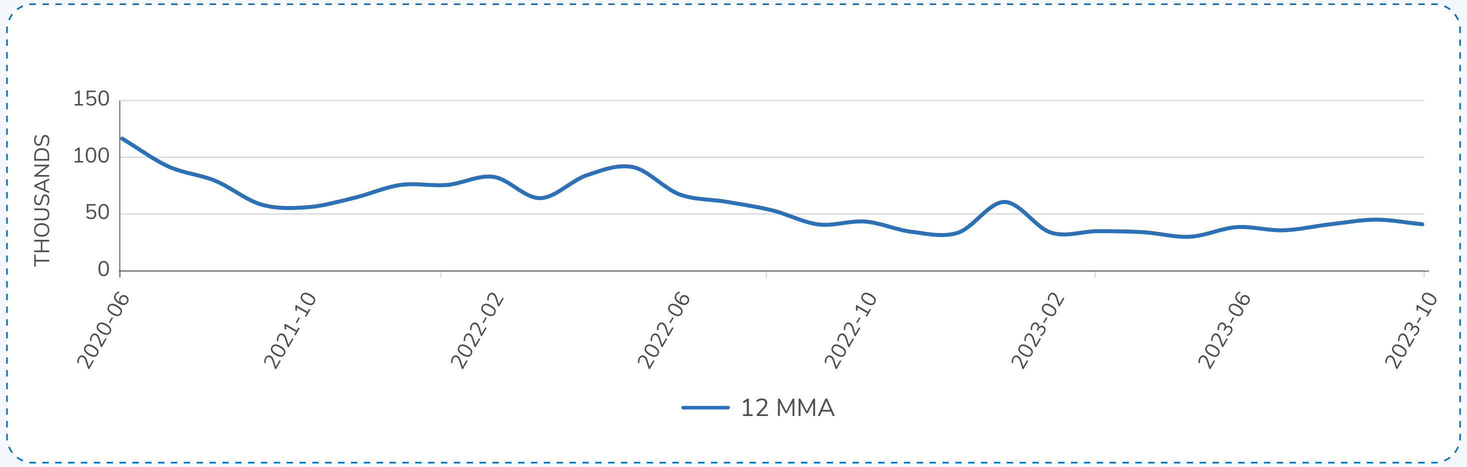
Consequently, our GDP has been weakening, with a significant gap compared to the United States. The six-month moving average has been on a downward trajectory since late 2021 and has recently turned negative, with an average six-month growth rate of -0.1%. Despite this, we anticipate that labour market strength will mitigate the economic downturn. Although job growth has slowed in 2023 compared to previous years, the 12-month moving average has consistently remained strong and has even showed signs of improvement recently. We believe while Canada has likely entered a recession, low unemployment will contribute to a milder contraction here as well.

We continue to remind ourselves that despite economic headwinds, the Canadian equity market is more globally oriented than domestically oriented and should benefit from any global recovery.

Canada month-over-month GDP growth, 2020-2023



12-month moving average of total monthly job gains in Canada, 2022-2023



Source: IG Wealth Management, Bloomberg as of October 31, 2023.

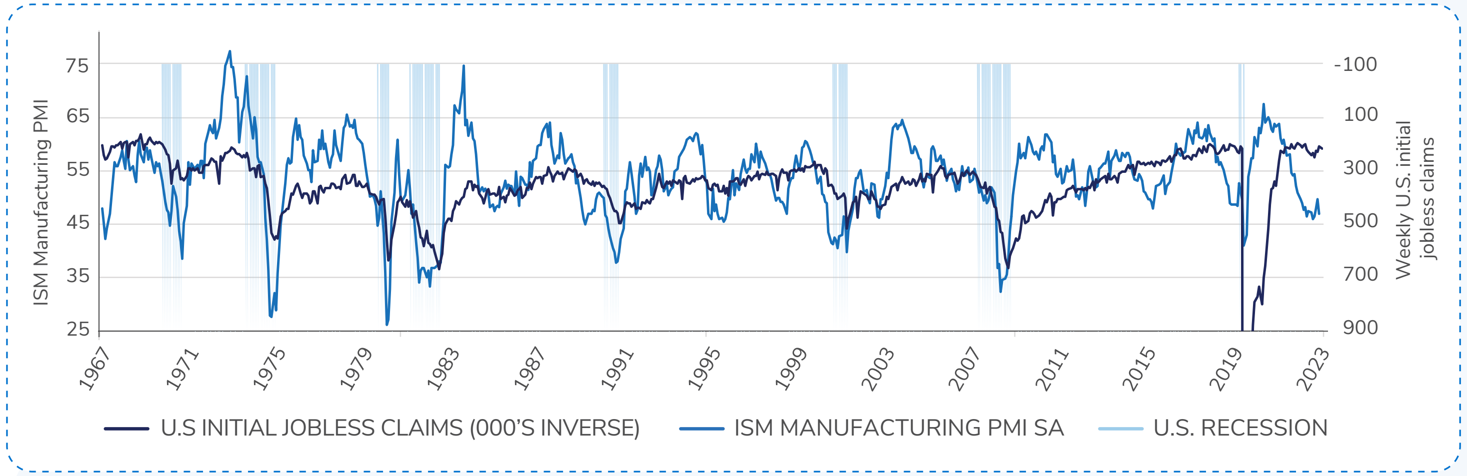
We are in a new labour paradigm

Demographics play a key role in future economic growth. This is because population growth and age distribution can influence the supply of labour and productivity. An aging population and declining fertility rates lead to a tight labour market.

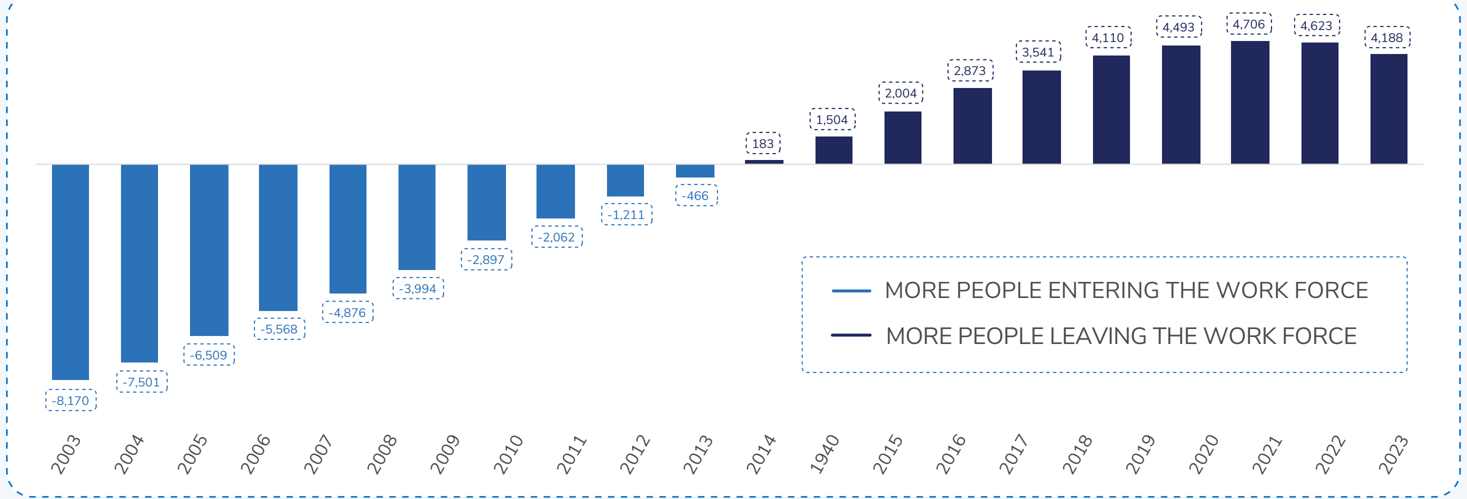
This has been the case in many countries recently, as more individuals are leaving the labour force through retirement than those entering the labour force. According to the OECD, there are more than 4 million Americans between the age of 55-64 (those leaving the workforce) than between the age of 15-24 (those entering the workforce). This has been the trend since 2013 and explains why (aside from during the COVID-19 lockdowns, when manufacturing activity declined significantly, as measured by the ISM PMI), in the United States over the last 10 years, we didn't see a commensurate increase in job losses. This has created an environment of lower unemployment than the historic norm.

A tight labour market can create competition among employers for employees. This can result in low unemployment and higher wage pressure, and a reluctance among employers to shed payroll for fear that they may not be able to re-hire at a later date.

ISM Manufacturing Index vs. U.S. initial jobless claims, 1967 - present



Difference in U.S. labour force cohort 15-24 & 55-64 ('000s)



Source: IG Wealth Management, OECD as of December 2022; Bloomberg as of November 2023.

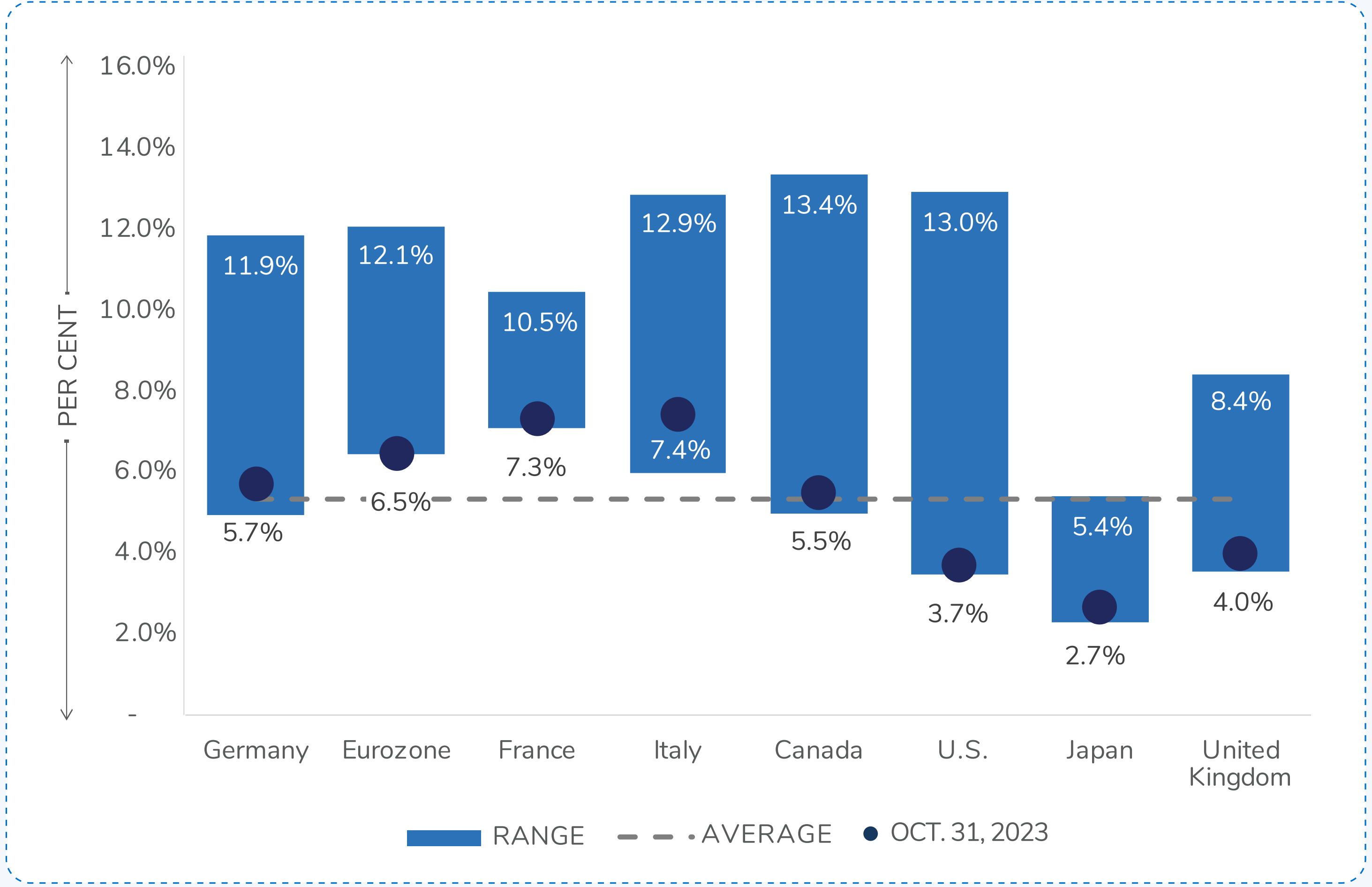
A strong labour market should contribute to a soft landing

The tight labour market seen in the United States is an example of what we are witnessing across other countries in Europe and Asia. Despite a much weaker manufacturing environment over the past year, we've not seen a meaningful increase in job losses in Europe, the U.S. or Canada. We believe this is characteristic of employers fearing the inability to re-hire. As a result, many economies are enjoying unemployment levels near their 20-year lows.

In the U.S., prior recessions have seen unemployment rates between 8-12%. We do expect unemployment to turn higher over the coming year. However, labour is the linchpin to consumption. Consumption remains strong as long as unemployment remains low.

Given how tight the labour market is, it's a reasonable assumption that unemployment will remain lower than what we would expect in slower growth environments and therefore supportive of a soft-landing scenario.

Unemployment rates are at historical lows - last 20 years



Source: IG Wealth Management, OECD as of December 2022; Bloomberg as of November 2023.

Inflation is decreasing

Last year and into 2023, we experienced high inflation in many of the major developed economies. Over the past year, there has been a significant reduction in inflationary pressure. For example, inflation in Canada and the U.S. has fallen by roughly half on a year-over-year basis. This has matched money-supply growth rates that have themselves been falling since the middle of 2021.

Looking ahead, our models suggest inflation is likely to align closer to the U.S. Federal Reserve's and Bank of Canada's targets of 2%. The eventual path to 2% will take some time, as the effects of the fiscal and monetary stimuli during COVID-19 lockdowns continue to work their way through economies. Nonetheless, fears of runaway inflation are no longer relevant. We are solidly in the normalization phase for inflation, which also implies the normalization phase for interest rates.

	Sep-20	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21	Jan-22	Feb-22	Mar-22	Apr-22	May-22	Jun-22	Jul-22	Aug-22	Sep-22	Oct-22	Nov-22	Dec-22	Jan-23	Feb-23	Mar-23	Apr-23	May-23	Jun-23	Jul-23	Aug-23	Sep-23	Oct-23
U.S. inflation YoY	1.4	1.2	1.2	1.4	1.4	1.7	2.6	4.2	5.0	5.4	5.4	5.3	5.4	6.2	6.8	7.0	7.5	7.9	8.5	8.3	8.6	9.1	8.5	8.3	8.2	7.7	7.1	6.5	6.4	6.0	5.0	4.9	4.0	3.0	3.2	3.7	3.7	3.7
Canada inflation YoY	0.5	0.7	1.0	0.7	1.0	1.1	2.2	3.4	3.6	3.1	3.7	4.1	4.4	4.7	4.7	4.8	5.1	5.7	6.7	6.8	7.7	8.1	7.6	7.0	6.9	6.9	6.8	6.3	5.9	5.2	4.3	4.4	3.4	2.8	3.3	4.0	3.8	3.8
U.K. inflation YoY	0.5	0.7	0.3	0.6	0.7	0.4	0.7	1.5	2.1	2.5	2.0	3.2	3.1	4.2	5.1	5.4	5.5	6.2	7.0	9.0	9.1	9.4	10.1	9.9	10.1	11.1	10.7	10.5	10.1	10.4	10.1	8.7	8.7	7.9	6.8	6.7	6.7	6.7
Euro area inflation YoY	-0.3	-0.3	-0.3	-0.3	0.9	0.9	1.3	1.6	2.0	1.9	2.2	3.0	3.4	4.1	4.9	5.0	5.1	5.9	7.4	7.4	8.1	8.6	8.9	9.1	9.9	10.6	10.1	9.2	8.6	8.5	6.9	7.0	6.1	5.5	5.3	5.2	4.3	2.9
China inflation YoY	1.7	0.5	-0.5	0.2	-0.3	-0.2	0.4	0.9	1.3	1.1	1.0	0.8	0.7	1.5	2.3	1.5	0.9	0.9	1.5	2.1	2.1	2.5	2.7	2.5	2.8	2.1	1.6	1.8	2.1	1.0	0.7	0.1	0.2	0.0	-0.3	0.1	0.0	0.0
Japan inflation YoY	0.0	-0.4	-0.9	-1.2	-0.7	-0.5	-0.4	-1.1	-0.8	-0.5	-0.3	-0.4	0.2	0.1	0.6	0.8	0.5	0.9	1.2	2.5	2.5	2.4	2.6	3.0	3.0	3.7	3.8	4.0	4.3	3.3	3.2	3.5	3.2	3.3	3.3	3.2	3.0	3.0

Source: IG Wealth Management, Bloomberg as of September 30, 2023. Developed economies inflation heatmap (October 2023 – survey).

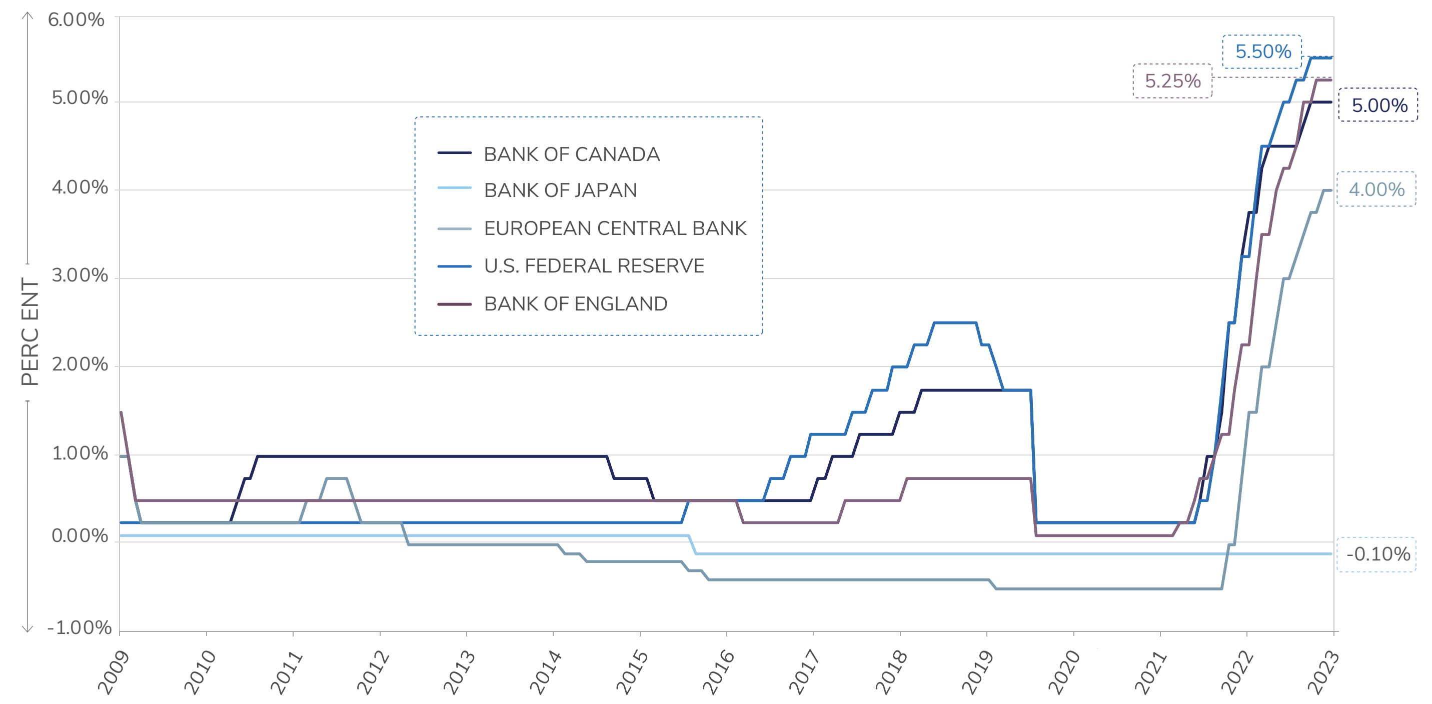
Central bank rate hikes appear over

With inflation subsiding, the pressure on central banks to continue with a tighter monetary policy is also subsiding. Many central banks have paused rate hikes in the past couple of months. Investor expectations via the futures market are indicating a pause for the Bank of Canada, U.S. Federal Reserve, Bank of England, European Central Bank, Swiss National Bank and Royal Bank of New Zealand, to name a few.

While many central banks have stopped raising interest rates, the long end of the yield curve (the US 10-year Treasury) has been rising on its own due to supply and demand dynamics. High deficit spending, coupled with the continuation of quantitative tightening, are likely to keep the U.S. 10-year Treasury yield in the current range of 4.5-5.5%. We are seeing this across sovereign bond markets. In effect, higher long-term yields are doing the work of the central banks for them: allowing for a pause in rate hikes.

This implies that we're at the end of the current rate-hiking cycle but it doesn't suggest a quick turn to interest rate cuts. The rate-cut bar is quite high, and we don't expect cuts to come until the end of 2024 at the earliest. At the same time, the higher yield environment is a boon for fixed income investors.

Central bank policy rates: last 15 years



Source: IG Wealth Management, Bloomberg as of October 31, 2023.

Higher yields are a boon for fixed income investors over the long run

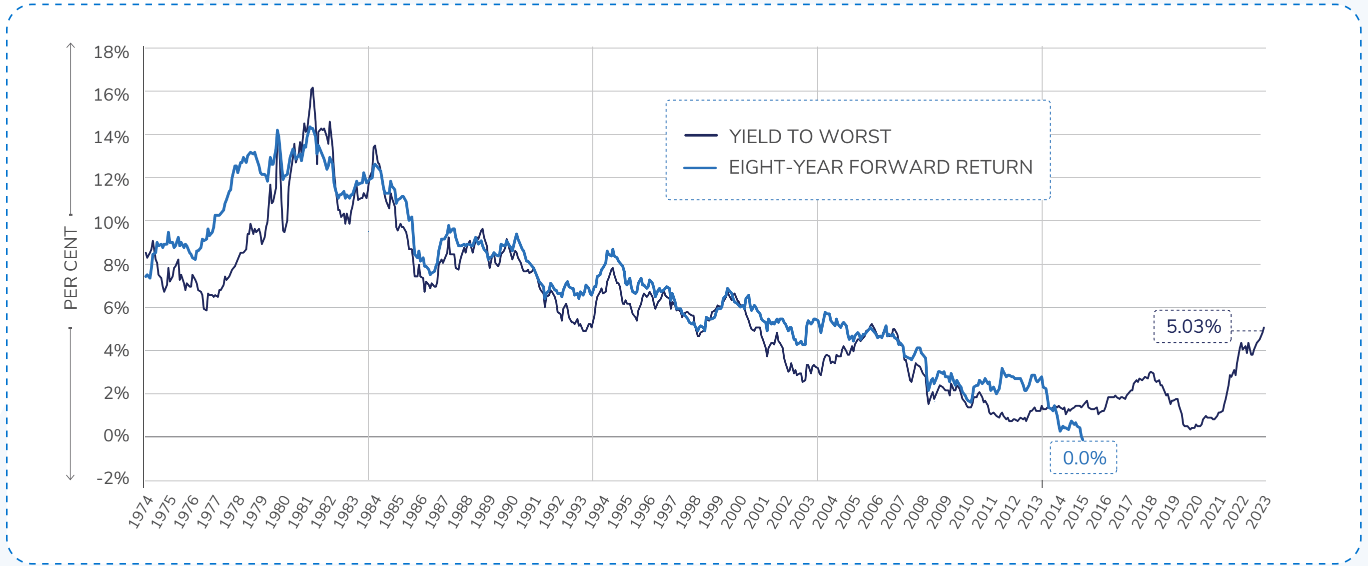
The current yield environment is more consistent with the historical norm than what we saw over the last 10 years.

Bond returns have been challenged over the past couple of years, as interest rates were first held exceptionally low for nearly a decade, then rose more recently, in response to higher inflation. The sub-par returns seen in fixed income are primarily due to the normalization of interest rates, rather than an indication of what can be expected in the future. Further, the current yield environment is more consistent with the range of the last 200-plus years than the last 10.

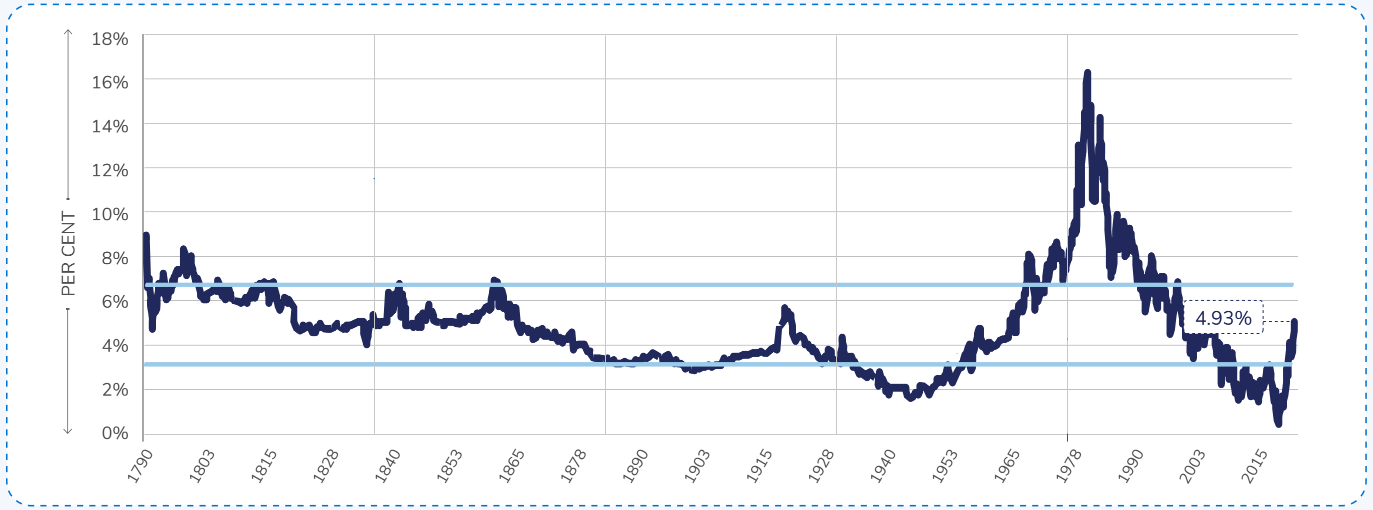
In the long run, a high-interest-rate environment is actually beneficial to future returns. Historically, there is a strong correlation between the eight-year forward return for fixed income and the current yield of the treasury index.

Yields are at a level that haven't been seen in almost 20 years. What this implies is that, moving forward, bonds have the potential to deliver higher returns in the coming years than what investors have experienced recently. This is a significant increase compared to 2020, when such expected yields were nearly zero.

Bloomberg U.S. Treasury Index, yield vs eight-year annualized forward return, 1974 - current



U.S. 10-year Treasury yield, 1790 - current



Source: IG Wealth Management, Bloomberg as of October 31, 2023.

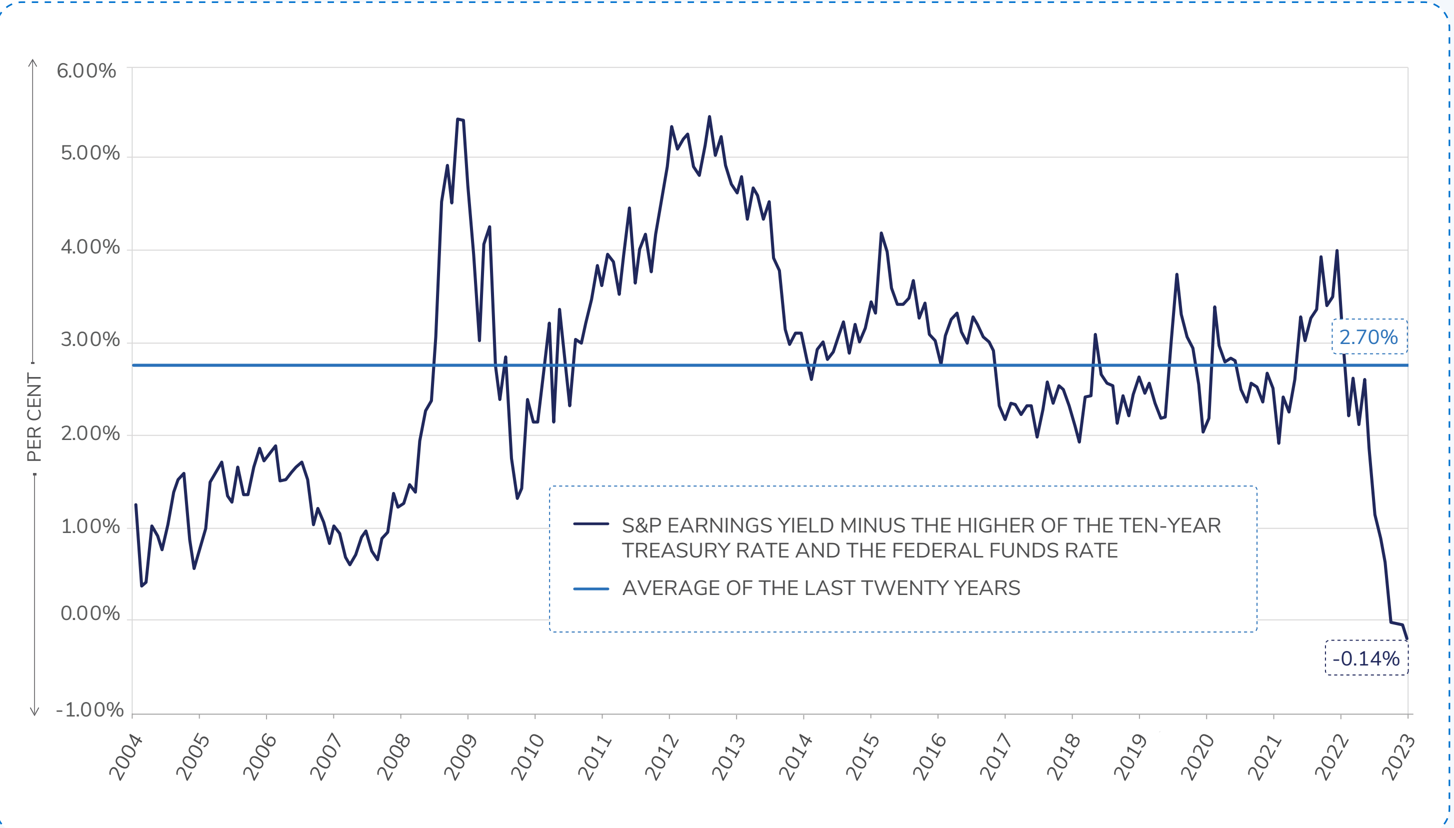
Fixed income hasn't been this attractive in a long time

The difference between expected returns from stocks and bonds is at levels last seen in 2003.

The equity risk premium (ERP) is the reward an investor receives for buying stocks and taking on risk, instead of merely investing in low-risk fixed income assets. With the last 15 years being characterized by a zero-interest-rate policy, the equity risk premium has been quite high. This has prompted investors — including institutional investors and pension funds — to move tactically in favour of equities. For instance, consider the renowned Norges Fund, which oversees Norway's Government Pension Fund Global, valued at US$1.5 trillion. In 2004, 60% of its assets were allocated to fixed income investments. As of now, this proportion has fallen to 26%. We believe the current yield environment will put the spotlight back onto bonds. In the coming years, we expect many of these institutions to revert to their traditional asset allocations.

The ERP is a poor forecast of future equity returns. Rather, it suggests that bond returns are likely to align more closely with equity returns in the coming years. Historically, the ERP can remain low for extended periods. Therefore, this metric is more indicative of the attractiveness of bonds rather than a direct commentary on our expectations for stocks themselves.

S&P 500 earnings yield minus the higher of the 10-year treasury rate and the Federal Funds Rate: last 20 years



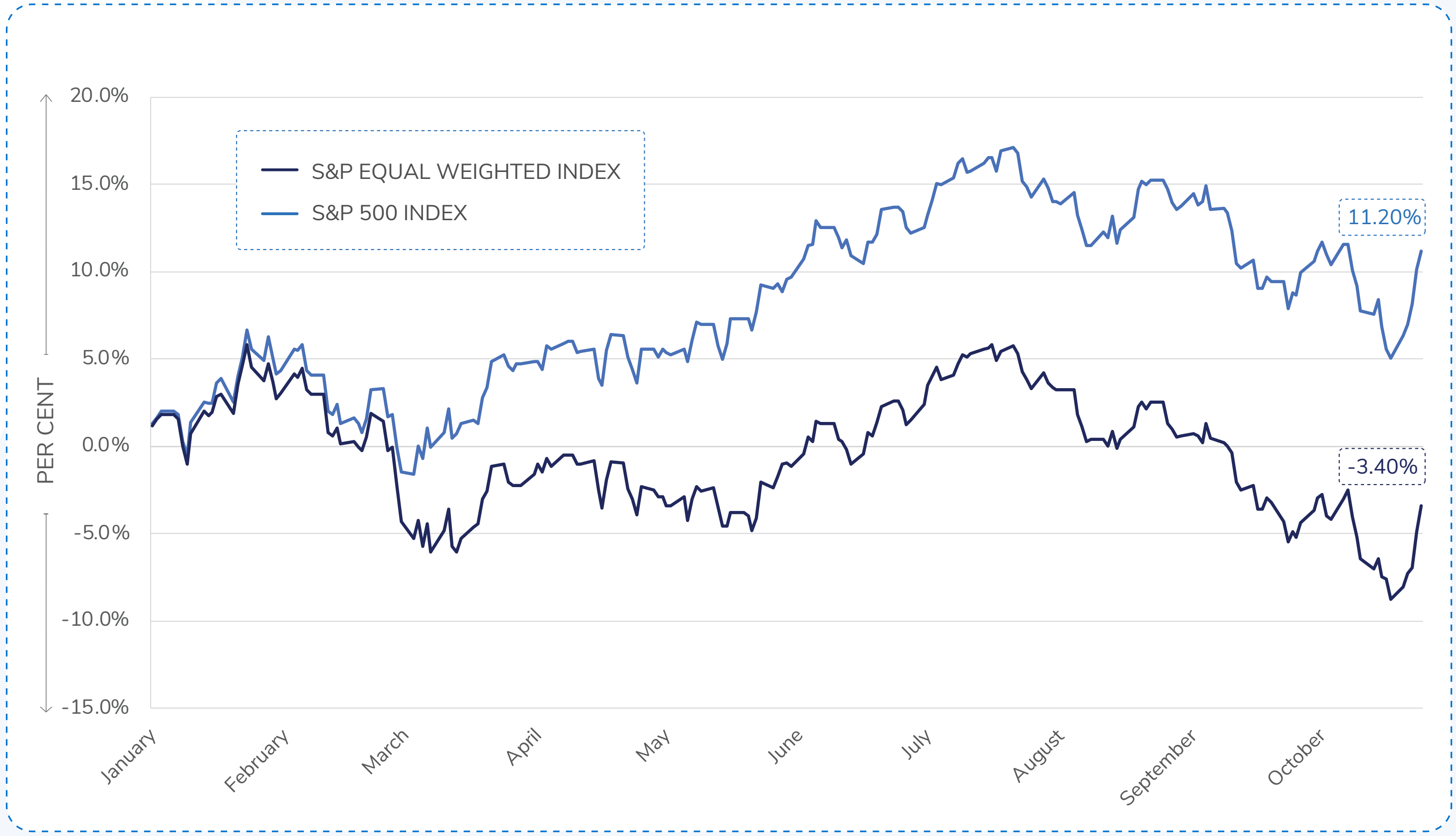
Source: IG Wealth Management, Bloomberg as of October 31, 2023. Proprietary ERP calculation. Results may vary.

S&P 500 performance for 2023 has been driven by Big Tech

The S&P 500 Index comprises the 500 largest public corporations in America, with their weight in the index determined by their relative size. As a result, movements in larger companies significantly impact the index's direction more than those in smaller companies. The dominance of these major corporations, particularly in technology, renders the S&P 500 top heavy, meaning its performance is disproportionately swayed by its largest members.

During the turmoil of Silicon Valley Bank's collapse in March 2023, investors gravitated towards Big Tech companies as a safe haven (the "magnificent seven" referred to earlier), leading to a significant performance disparity within the index. When the index is adjusted to give equal weight to each company, eliminating the influence of size, the landscape for 2023 changes dramatically. The year wasn't uniformly successful for all sectors. It was characterized by concentrated gains rather than broad-based success. This scenario sets the stage for a potential rebound in 2024, especially for sectors and companies that did not participate in the previous year's rally.

S&P 500 Index (market cap) vs. S&P 500 Equal Weight Index
Price return: year to date



Source: IG Wealth Management, Bloomberg as of November 6, 2023.

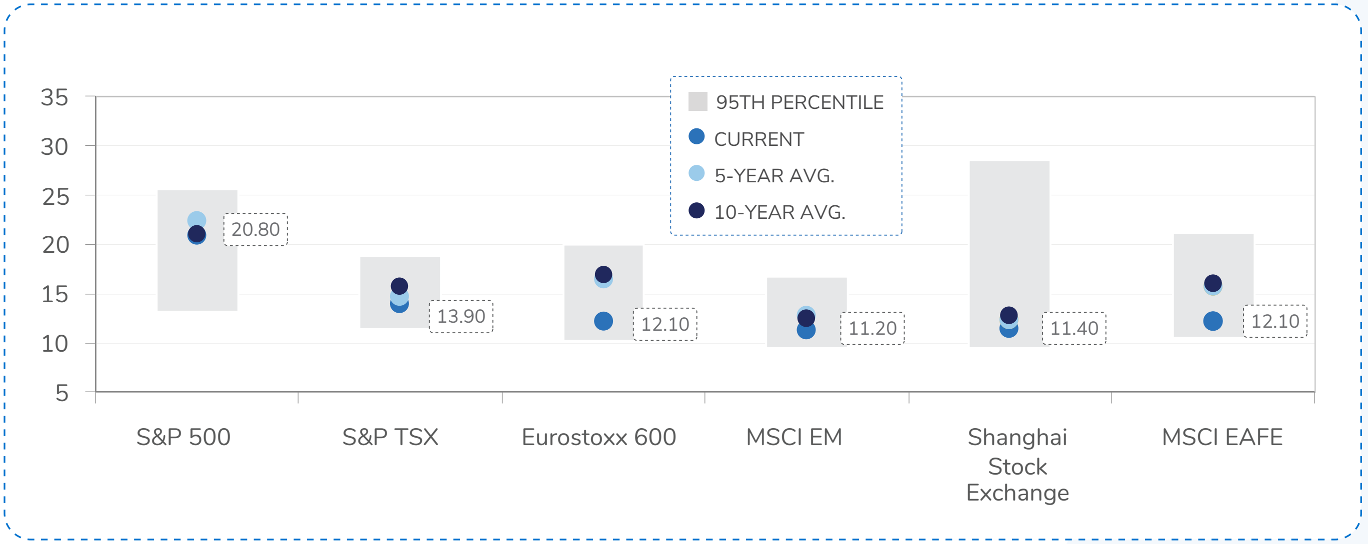
Equity market valuations remain attractive

We often say that equity market valuations are a poor predictor of short-term returns. And while this is true, that doesn't mean we should discount valuations and the relative differences across indices. Valuation does offer a look at how equity markets may perform over a longer period of time, for example over 10 years. To that end, we do pay attention to valuations.

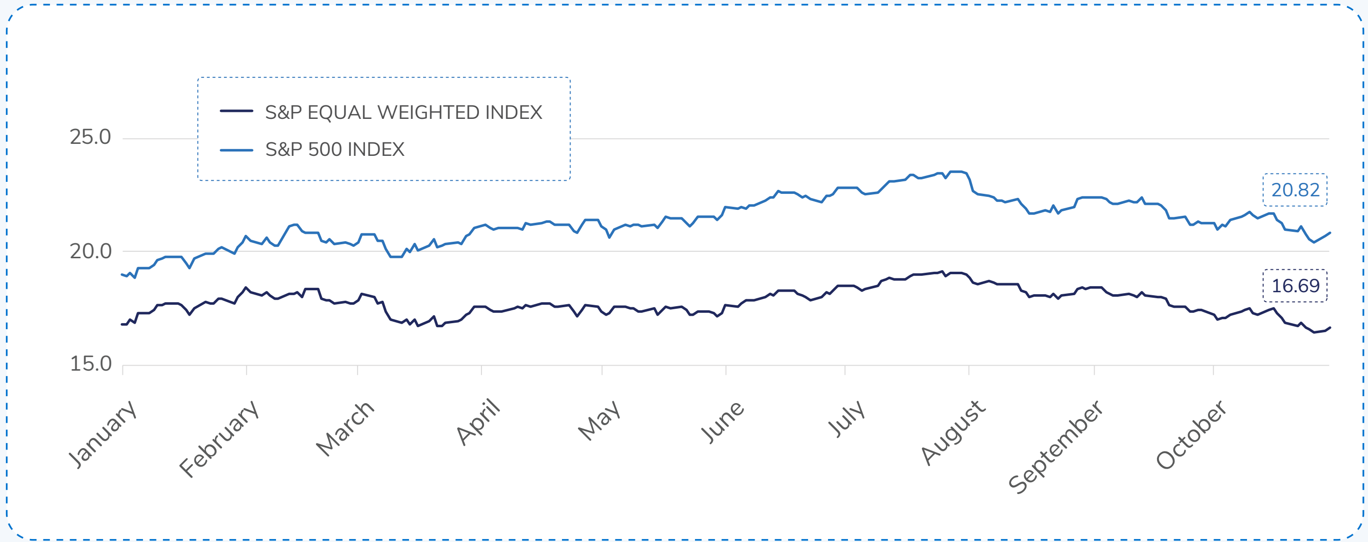
What we have seen over the course of 2023 is that equity market valuations remain attractive. This is even the case within the S&P 500 Index. As the "magnificent seven" contributed a disproportionate amount to the gains in 2023, pushing the index multiple higher, the rest of the index's constituents saw valuations fall. Excluding the seven, the S&P 500 Index reflects valuation in line with the historical average.

We believe 2024 may see an improved earnings environment, driven by an economic recovery. Combined with an attractive valuation and continued easing of inflation, we believe equity markets are likely to deliver another year of positive equity gains across the major indices. Our indicators would suggest a return profile in the mid-to-upper single digits, with risk to the upside.

Trailing P/E ratio (adjusted for positive earnings) - last 20 years



S&P 500 Index (Market Cap) vs. S&P 500 Equal Weight Index P/E Ratio (adjusted for positive earnings) - year to date



Source: IG Wealth Management, Bloomberg as of October 31, 2023.

Geopolitical risks are likely to contribute to volatility

Aside from the continued uncertainty from conflicts in Eastern Europe and the Middle East, 2024 is also an election year in the United States. Headline risk can drive investor sentiment and contribute to short-term market volatility. We believe investors will need to pay particular attention to distinguish between sentiment-driven volatility and fundamental-driven volatility.

The current geopolitical events including the military conflicts in Ukraine and the Middle East can be unsettling to investors. However, as the chart on the next page shows, over the past 90-plus years there has always been an event that can shake investor confidence. In fact, according to the Smithsonian Magazine:

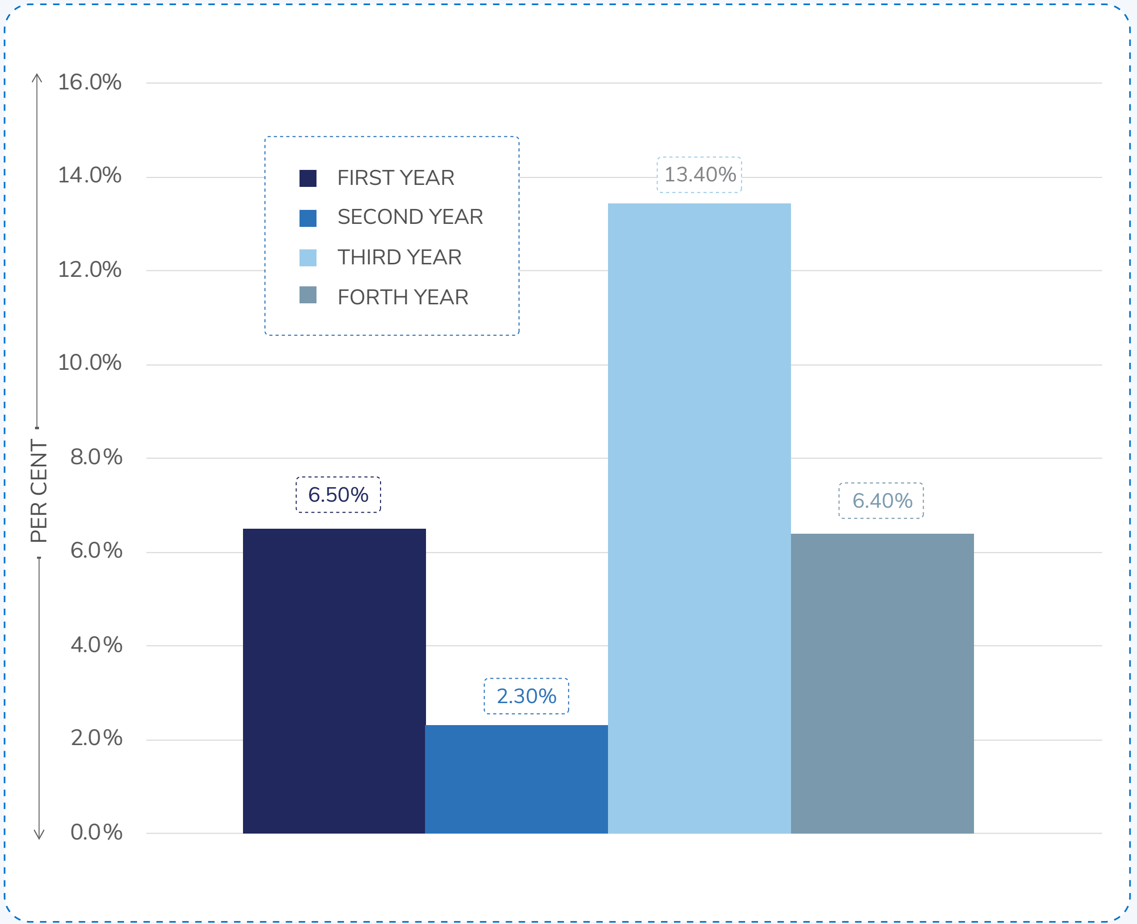
"By one count, the United States has been at war at some time in 93.5% of the calendar years between 1775 and 2018 (as of November 2018). Of course, this depends on how you define "war". We defined it as using military force, or the imminent threat of force (as in the "gunboat diplomacy" of the 1850s), to achieve national ends."

Whether it is military conflict, natural disaster, government shut-downs or elections, or potentially anything else, investors can often find a path to the financial markets, no matter how misplaced.

With 2024 being an election year in the United States, we anticipate the typical questions that come up every four years: "What does a win for (insert candidate/party) mean for the markets?" Given the potential presidential candidates thus far, this may be a more contentious election than in the past. And yes, it may bring about additional market volatility in a year that has historically been sub-par, as measured by the average return in the fourth year of a president's term.

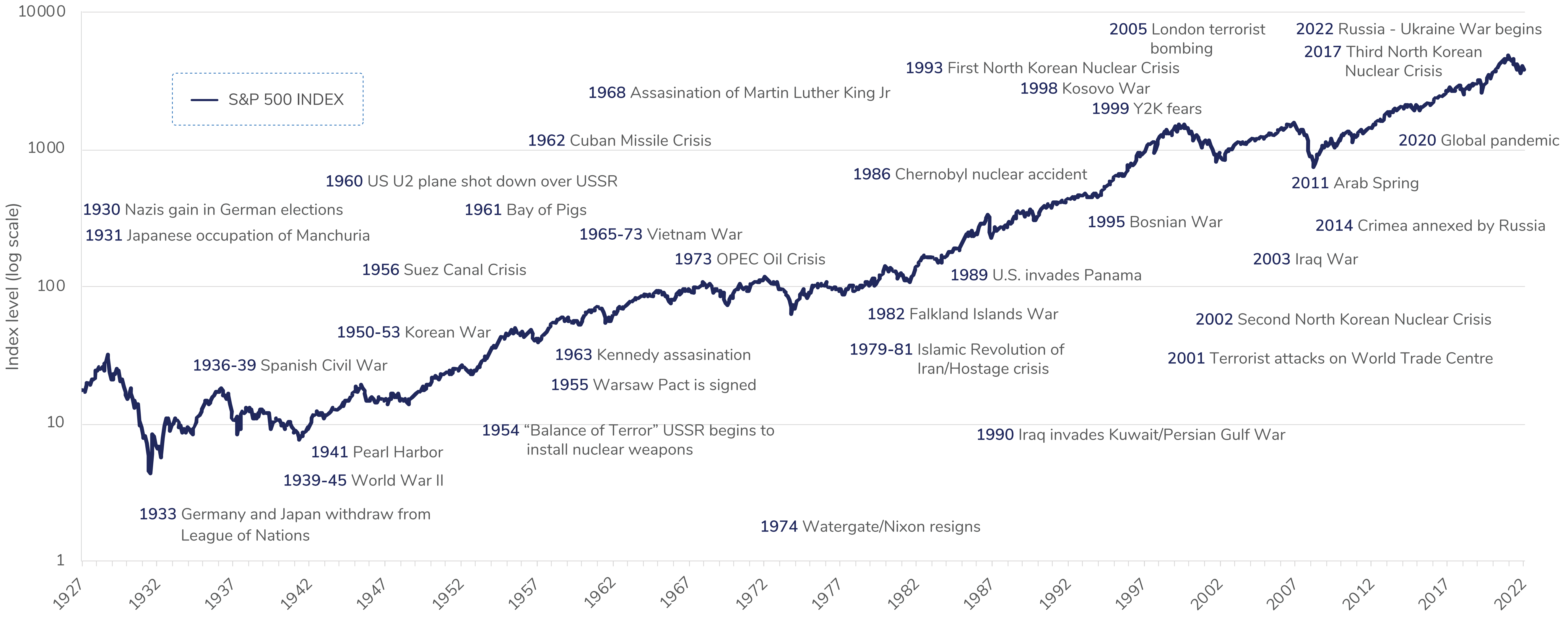
We encourage investors to take any sentiment-driven volatility in their stride. And remember that while geopolitical events can drive emotions, they rarely drive a lasting or meaningful impact on financial markets.

U.S. post presidential election price return of the S&P 500 Index 1928 – 2022 (November-November)



Source: IG Wealth Management, Bloomberg as of October 31, 2023.

Is it geopolitics or economics that matter more to the markets?



Source: IG Wealth Management, Bloomberg as of December 2022.

What if it goes right?

The investment markets are often stuck in the middle of a tug-of-war. On the one side, bearish sentiment, and on the other, bullish sentiment. Investors trade off emotions that can be triggered by anything from geopolitical events, economic data or market fundamentals. There is no right or wrong. However, investors can get stuck in one narrative from time to time. Today, that narrative leans far more pessimistic, with many market participants so focused on calling for a recession that, to reverse the phrase, they may be missing the trees for the forest.

This is where it behooves us to ask, what if it goes right?

What if the tightness in the labour market in North America and Europe keeps unemployment lower, supporting continued consumption growth? What if inflation continues to trend lower, as we believe it will, allowing central banks to cut rates? And what if global manufacturing rebounds, setting off another profit expansion?

If we allow ourselves to look more closely, we might discover that the “small stuff” can lead us to a better possible outcome.

For example, as highlighted through this outlook, there is data that suggests a positive turn for the U.S. economy. The worst of the manufacturing and earnings recessions, inflation and interest rates may be behind us. Equity market valuations are attractive, as are bond yields.

This leads us to a more optimistic view on the global economy and markets, as we head into 2024. Also, we believe market returns are going to be much more closely aligned next year than in 2023. This includes the return potential between stocks and bonds as the current yield environment makes bonds much more attractive than they have been in years.

We are much more neutral heading into 2024 across asset classes. We wouldn’t say one asset class or major index exhibits outsized risk one direction or another. Therefore, we see a return to the benefits a balanced 60/40 portfolio (equity/bonds) delivers for investors.

There are challenges no doubt, with the Canadian economy being one of them. But largely, we believe the data points to a general sense of improvement. And with improvement comes opportunity.

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