



Economic Outlook

Winter 2025

SUMMARY

- It would seem that there is little reason to expect that the coming year will be all that different than what has played out from an underlying economic perspective over the last few years.
- The baseline outlook appears to point to continued positive global growth underpinned by the still healthy US consumer, while moderating inflationary pressures could allow central banks to continue on the path toward more “neutral” stances that, in turn, will give some support to the more rate-sensitive goods-producing activities.
- Such a backdrop would again be constructive for further gains across financial markets.
- The rise in geopolitical uncertainty and the attendant increase in headline risks that may come as a result of the government transition in the US, however, represents a material risk that could mean the path forward is not without some bumps.
- Moreover, a particularly inimical approach to international policy may well perpetuate the performance gap between the US and the rest of the world experienced over the last two years.
- While it may well end up being that the more onerous proposals presented on the campaign trail are nothing more than negotiating tactics that may not come to fruition, the threats and their negative economic consequences cannot be dismissed out of hand and may weigh on market sentiment and increase market risk premia. That would suggest that placing an added emphasis on risk management and exposure to higher-quality assets that are best positioned to weather the volatility may be prudent.

It's like déjà vu all over again

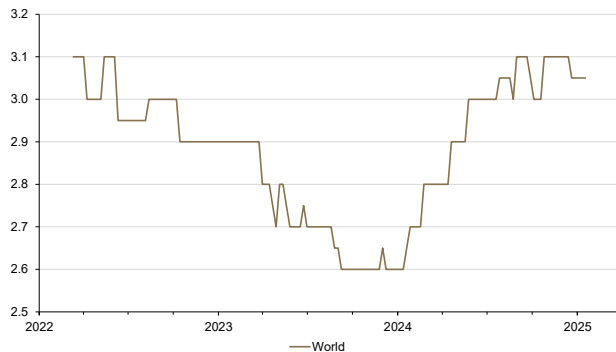
They say the definition of insanity is doing the same thing over and over again and expecting different results. If so, it would seem that the post-pandemic era has driven economic forecasters a little insane.

In a dynamic that has now come to characterize the last four years, expectations at the start of last year were that the improved growth trajectory established at the end of the year before would ultimately give way to a loss of momentum. There were better-than-even odds being assigned to the likelihood that a recession would materialize before the year was out.

Global growth, however, held firm in the early months of 2024, and while there were some starts and stops mid-year, those gloomier forecasts were once again well off the mark. The aggregated world again proved to be more resilient than anticipated.

CHART 1: A FAMILIAR EVOLUTION

Consensus real gross domestic product forecasts, 2024
(year-over-year percent change)



Source Guardian Capital using data from Bloomberg to January 17, 2025

In fairness, the pessimistic expectations have not exactly been unfounded given the steady flow of potential catalysts for a downturn — including but not limited to the ebb and flow of the pandemic, rising geopolitical strife, rising price pressures and rising interest rates.

It just so happens that the key lynchpin of the global economic cycle that is the American consumer has remained strong enough to keep forging forward in spite of the headwinds.

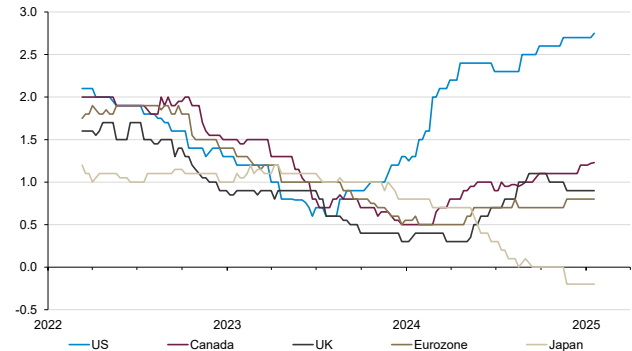
This brings up another point of repetition in the narrative. While there has been an anticipated broadening out in growth momentum with countries outside the US gaining steam and narrowing the performance gap, last year once again saw that the

upside surprise was primarily a function of the US dragging the rest of the world behind it — though, it is worth noting other regions did manage to outperform their dour start of the year expectations, just by lesser degrees.

The world's largest economy once again handily outpaced its peers as the American consumer continued to show its resilience in the face of high costs of living and tighter financial conditions.

CHART 2: US VERSUS THEM

Consensus real gross domestic product forecasts, 2024
(year-over-year percent change)



Source Guardian Capital using data from Bloomberg to January 17, 2025

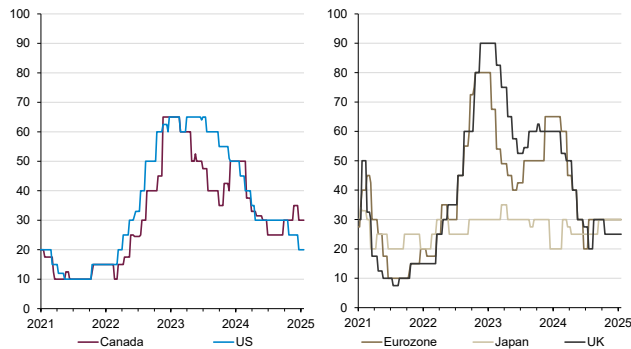
As the New Year and second quarter-century of the millennium begins, there is little reason to anticipate that there will be a material shift in these key economic growth trends. The overall outlook now appears to suggest that 2025 will provide a general feeling of déjà vu all over again — and not just from a macroeconomic lens.

Play it again, Uncle Sam

With that said, there is one notable difference this year with respect to the story. Perhaps it is a case of “fool me once, shame on you, but fool me twice (or thrice), shame on me”, but the cadre of dismal scientists that form consensus expectations are assigning the lowest odds of a downturn since 2022.

CHART 3: RECEDING RECESSION RISKS

Consensus estimated probability of recession in 12 months (percent)

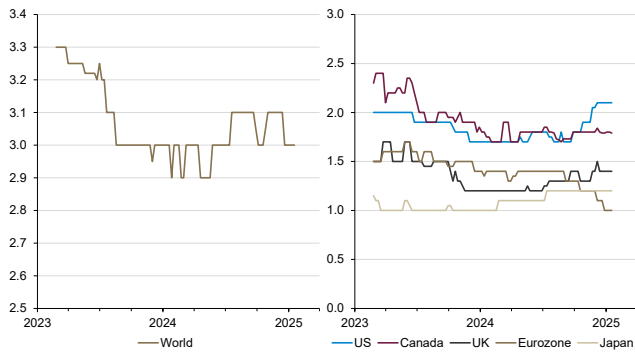


Source: Guardian Capital using data from Bloomberg to January 17, 2025

Instead, the broad expectation as the calendar rolls over is for more of the same — a general view of stable, if unspectacular, growth, with a (widening) gap between growth stateside and elsewhere.

CHART 4: MORE OF THE SAME

Consensus real gross domestic product forecasts, 2025 (year-over-year percent change)



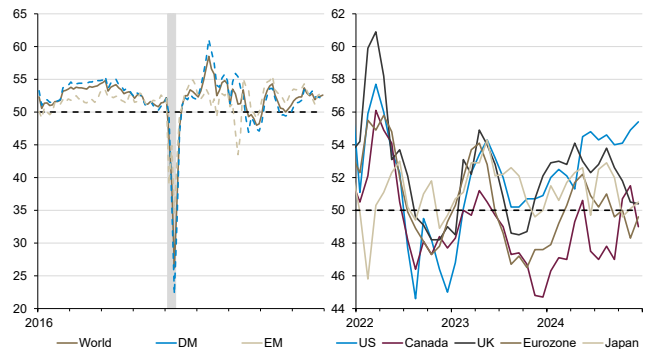
Source Guardian Capital using data from Bloomberg to January 17, 2025

While this could seemingly represent a contrarian signal, it is hard to argue against the available facts.

The bellwether global composite Purchasing Managers' Index¹ (PMI), a forward-looking gauge of broad economic activity, ended 2024 at a six-month high and suggests the solid momentum will carry into the New Year — though, looking under the hood, there is a gulf between the pickup stateside and the more stagnant readings in other areas.

CHART 5: A CLEAR DIVIDE

Composite Purchasing Managers' Index (diffusion index; >50 denotes expansion)

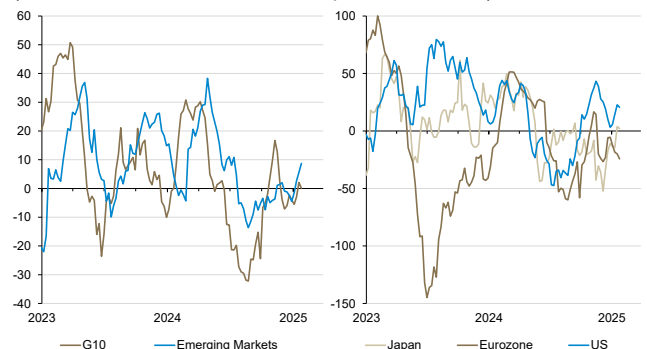


Shaded regions represent periods of US recession; source: Guardian Capital using data from Bloomberg to December 2024

These signals are corroborated by the continued outperformance of the dataflow in the US while other regions have provided more disappointment than upside surprises based on the data aggregations.

CHART 6: YOU CONTINUE TO SURPRISE ME

Economic Surprise Index² (index; >0 denotes better than expected dataflow)



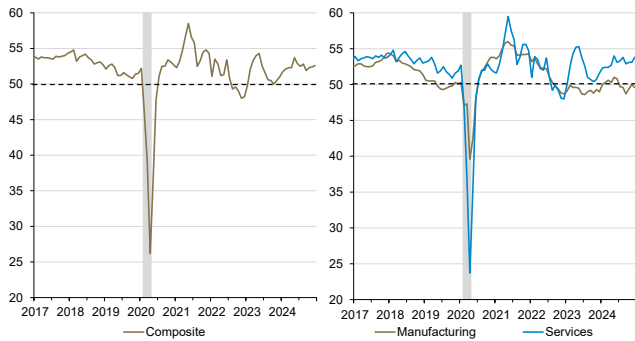
Source: Guardian Capital using data from Bloomberg to January 17, 2025

One reason for the divide in performance is that goods-producing parts of the global economy (which carry comparably less weight in the US than they do in other jurisdictions) are facing more challenges and weaker demand than the service providers.

Indeed, the industry-specific PMI points to general stagnation among the manufacturers while the more economically important service sector remains firmly entrenched in expansionary territory — and pulling the global composite gauge of activity up with it.

CHART 7: AT YOUR SERVICE

Purchasing Managers' Index¹, World
(diffusion index; >50 denotes expansion)



Shaded regions represent periods of US recession; source: Guardian Capital using data from Bloomberg to December 2024

Stop me if you've heard this one before

Undoubtedly, a big driver of the strength in services is the willingness and capacity of consumers — particularly those in the US — to spend.

Household expenditures account for nearly two-thirds of total economic output across Developed Markets (DM) and services spending accounts for roughly two-thirds of that, making it the biggest component of the gross domestic product (GDP) add-up.

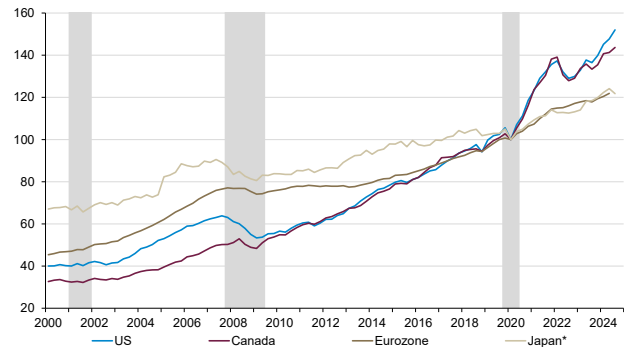
As such, the financial health of consumers and their ability to spend beyond the necessities of life remains the most important foundational aspect of the economic cycle — and the data continue to indicate that this foundation remains solid.

Household net worth (the value of assets less liabilities) is at all-time highs thanks to the firmness in financial and housing markets that have recorded gains that have outpaced debt growth in the last two years in the face of higher rates.

And while the US has registered the biggest improvements — and this spans the entire wealth spectrum rather than just the rich getting richer — it is also the case that wealth across the aggregated Eurozone, Canada and Japan is at all-time highs.

CHART 8: FOR WHAT IT'S WORTH

Household net worth
(index, Q1 2020 = 100; local currency basis)



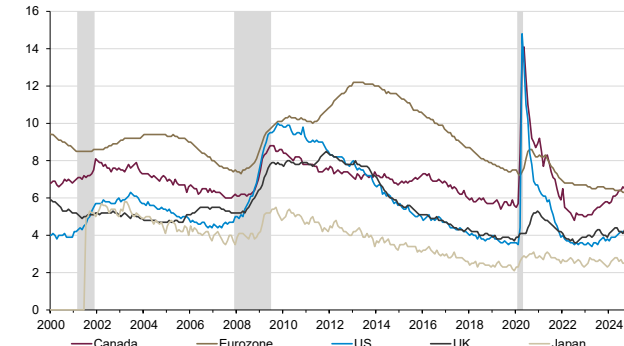
*based on financial assets only; shaded regions represent periods of US recession; source: Guardian Capital using data from Statistics Canada, US Federal Reserve, European Central Bank, and Bank of Japan to Q3 2024

The presence of a decent (and growing) nest egg for households, especially those less-wealthy ones, stands in stark contrast to the pre-pandemic cycle where the need to rebuild savings following the housing market crash constrained spending — and provides a clear reason for the persistent resiliency in consumer spending in recent years.

Another reason why spending has held up well is that job markets remain firm. Unemployment rates globally remain within arm's reach of the recent all-time of generational lows.

CHART 9: LESS TIGHT LABOUR MARKET

Unemployment rates
(percent)



Shaded regions represent periods of US recession; source: Guardian Capital using data from Bloomberg to December 2024

With that said, it is the case that these measures of labour slack have softened over the last year, particularly in Canada. On the surface, the rise in the unemployment rate is not a positive sign for the health of the economy.

Importantly, however, the increase has been a product of the huge immigration-driven surge in

population over the last two years that has swelled the size of the workforce with people newly looking for work (largely those new to the labour force but also those returning after a period outside the labour force) accounting for the bulk of the overall rise in unemployment.

In other words, the current environment is different from previous periods where unemployment rates rose because a multitude of people lost their jobs (and incomes), which set off the negative demand spiral that typically results in recession.

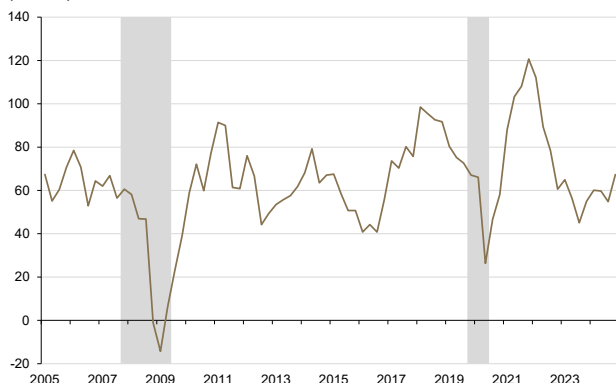
Indeed, the data continue to point to net increases in overall employment, albeit at more modest rates than seen earlier in the cycle, while indicators of layoffs remain historically benign.

Moreover, indicators of demand for workers continue to suggest that a material decline in job market prospects is not imminent.

There continue to be ample job vacancies that firms are looking to fill while forward-looking surveys of businesses indicate that hiring prospects are actually turning for the better in the year ahead. For example, The Business Roundtable survey³ of US business leaders suggests that hiring plans are the best they have been in two years.

CHART 10: HIGHER HIRING

CEO Economic Outlook hiring plans, US (index)



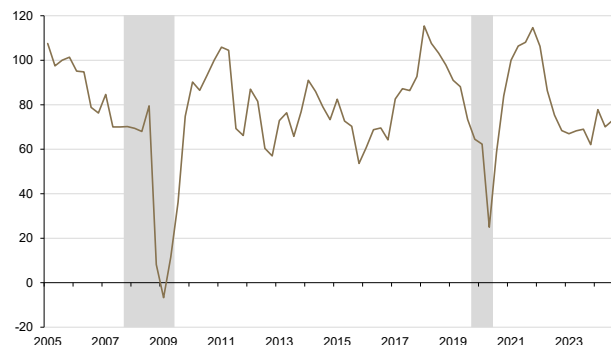
Shaded regions represent periods of US recession; source: Guardian Capital using data from Business Roundtable and Bloomberg to Q4 2024

A break in a pattern

These same business surveys are also showing something that has not been particularly present in recent years: plans to make bigger capital investments in their companies.

CHART 11: EXPANSION PLANS

CEO Economic Outlook capital spending plans, US (index)



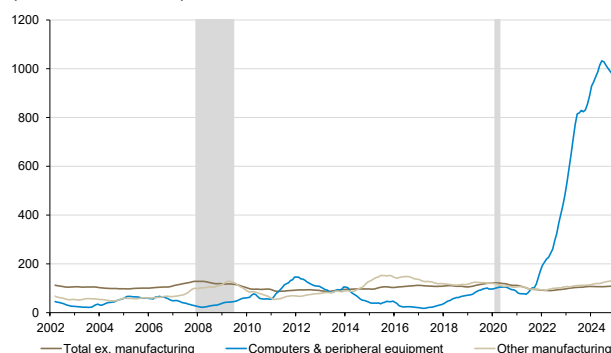
Shaded regions represent periods of US recession; source: Guardian Capital using data from Business Roundtable and Bloomberg to Q4 2024

The abundance of uncertainty that has been omnipresent over the last five years combined with the sharp increase in interest rates restrained a lot of capital spending plans even in the face of robust demand, keeping expenditure just focused on maintenance rather than expansion.

A clearer outlook, lower rates, and increasing government incentives and supports — including a slate of notable initiatives stateside — appear to be encouraging businesses to commit to investing, with the tech sector in particular seeing added flows.

CHART 12: ADDING CAPABILITIES

Real* construction spending, US (index; 2021=100)

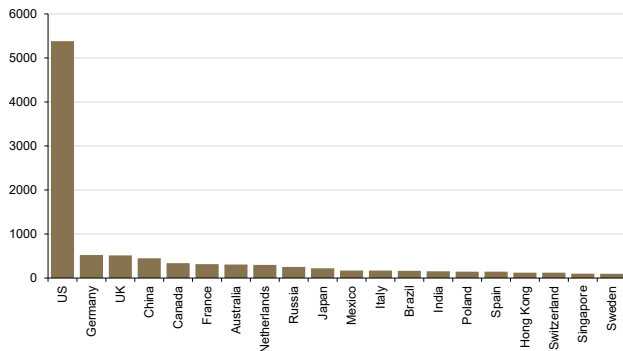


*Nominal spending deflated by producer price index for construction components and materials; shaded regions represent periods of US recession; source: Guardian Capital using data from Bloomberg to November 2024

Note, though, that the boom in investment in artificial intelligence (AI) is very US-centric to this point — for example, there are more data centers in the US than in the rest of the world combined.

CHART 13: DATA DUMP DIVERGENCE

Number of data centers⁴
(number)



Source: Guardian Capital using data from Statista as at March 2024

Given the secular tailwinds for this area and the potential productivity gains and influence, this represents another differentiating factor between the US and everybody else.

As well, lower rates and a household sector on solid financial footing suggest that housing markets that have generally stagnated over the last two years could also recover some verve — which in turn would support more ground-breaking on much-needed added housing supply.

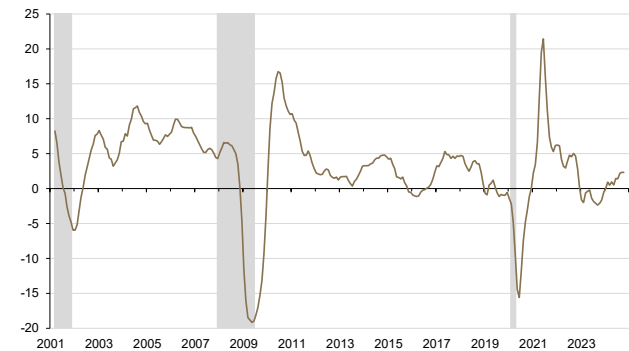
Add in the increased government infrastructure spending being tabled against the slew of elections and there is scope for the factory sector to break out of its doldrums and general investment to shoulder some of the burden of driving economic growth.

Further, the signs of improvement in capital spending and continued strength from consumers are coinciding with a recovery in trade, offering another support to global growth and suggesting that the goods-producing side of the economy may see better traction ahead.

Growth in imports and export volumes has perked up, and there has been particular strength in Emerging Markets (EM) that play a significant role in the supply chain.

CHART 14: TRADING PLACES

International trade volumes⁵, World
(year-over-year change in three-month moving average)



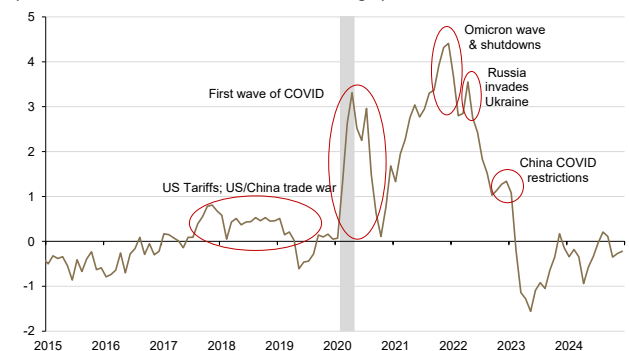
Shaded regions represent periods of US recession; source: Guardian Capital using data from CPB Netherlands Bureau for Economic Policy Analysis to October 2024

More of the same?

Trade is also benefitting from a normalization of pressures throughout the supply chain, resulting in the transitory pandemic-era surge in logistics costs fully abating.

CHART 15: PRESSURE RELEASE

Supply Chain Pressure Index⁶, World
(standard deviations from the average)

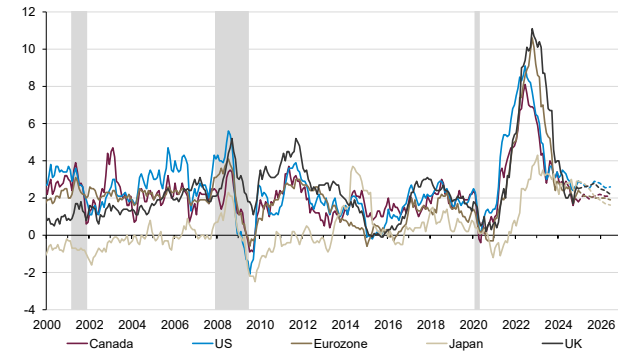


Shaded region represents period of US recession; source: Guardian Capital using data from New York Federal Reserve Bank to December 2024

Factor in softer commodity prices, the lagged impact of the moderation in home prices and rents flowing into the calculation, as well as the impact of the earlier tightening of monetary policy and more anchored expectations and overall inflation rates have fallen back within arm's reach — or, in the case of Canada, modestly below — central bank targets. And importantly, inflation is broadly anticipated to hold at more tolerable levels over the forecast horizon.

CHART 16: INCREASINGLY ON TARGET

Consumer Price Index⁷
(year-over-year percent change)

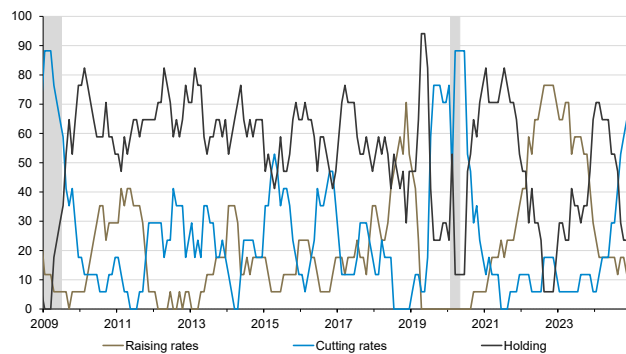


Dashed lines represent consensus forecasts as at January 17, 2024; shaded regions represent periods of US recession; source: Guardian Capital using data from Bloomberg to December 2024

The progress seen worldwide with respect to price pressures, and the expectations that inflation is on a sustainable path to target, have given monetary policymakers cause to begin to move away from their highly restrictive stances. Accordingly, central banks across the globe moved off the sidelines and cut policy rates.

CHART 17: TAKING IT EASY

Central bank policy rate direction, G20
(three-month rolling percent of G20 central banks)



Shaded regions represent periods of US recession; source: Guardian Capital using data from Bloomberg and the Bank for International Settlements⁸ to December 2024, 2024

The direction for policy rates, in general, going forward appears likely to be lower still, however, mixed messaging from policymakers and the ongoing signs of underlying momentum still leaves considerable uncertainty about the speed of decline as well as the final endpoint — and this is especially the case for the market-driving US Federal Reserve.

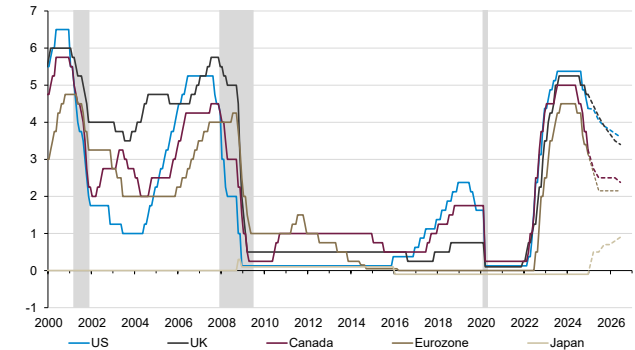
The issue is that as risks of a recession have ebbed, the risk of a re-acceleration in growth that could undo progress on inflation has increased.

While there is arguably a very high bar for a return to hikes in the year ahead, there is a possibility that interest rates may move more slowly and/or hold at higher terminal levels than previously assumed.

As it stands, current baseline projections have the easing cycle ending at levels that are still elevated by the standards of the last decade and a half.

CHART 18: SHIFTING INTO NEUTRAL

Central bank policy interest rates
(percent)



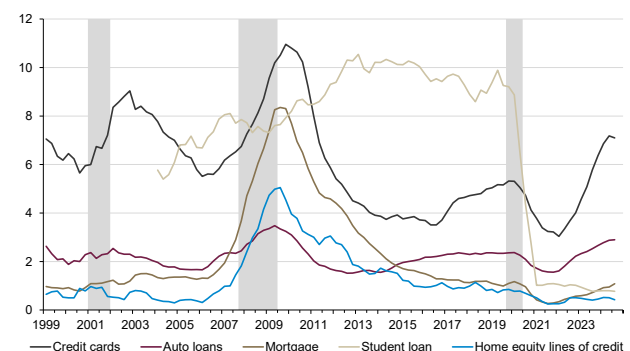
Dashed lines represent consensus forecasts as at January 17, 2025; shaded regions represent periods of US recession; source: Guardian Capital using data from Bloomberg to January 17, 2025

Even with the easing of financial conditions over the last year on the back of broadening rate cuts, there are growing signs of stress in some areas of the economy.

Consumer loan delinquency rates are rising, and while overall delinquencies and bankruptcy filings, at this point, remain fairly benign as households stay current on the housing-related debt that accounts for the majority of liabilities, the longer rates stay higher means that more payment pressures will creep in.

CHART 19: FALLING BEHIND

Loans 90+ days delinquent by type⁹, US
(percent of outstanding loan balances)



Shaded regions represent periods of US recession; source: Guardian Capital using data from [Federal Reserve Bank of New York](#)¹⁰ to Q3 2024

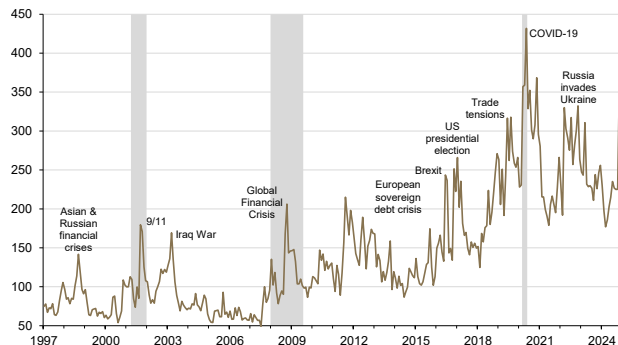
Here we go again

Monetary policy uncertainty, therefore, still represents a material risk to the outlook. These potential headwinds, however, are magnitudes lower than those that are now coming out of other policy areas, especially for the near term.

The regime change in the US and the accompanying heightened uncertainty about the returning Administration's approach to economic policy — especially with respect to international relations and trade — has cast a significant pall over the outlook for not just the US but the entire world.

CHART 20: PLAYING POLITICS

Policy Uncertainty Index¹¹, World
(index; pre-2015 average=100)



Shaded regions represent periods of US recession; source: Guardian Capital based on data from PolicyUncertainty.com to December 2024

The potential introduction of new tariffs — whether they are sweeping levies on all goods imported into the US, more targeted taxes on goods produced in those countries viewed by the incoming President as the “greatest offenders” or a bit of both — and the prospect of retaliation would have a significant impact on global growth given that the export of goods and services across borders accounts for roughly one-third of global output.

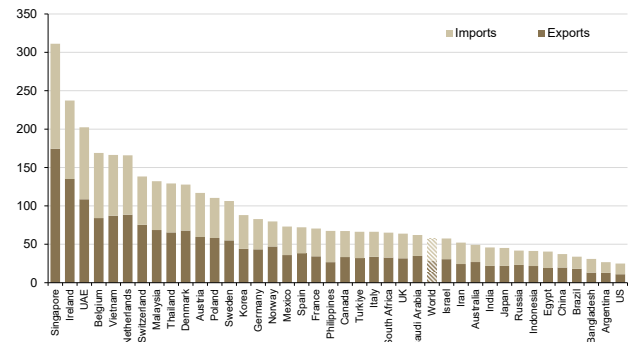
Of course, added two-way barriers that reduce the volume of trade would carry far less sting for the US from a production standpoint than it would for its counterparts, given that the American economy is far less dependent on exports than others.

In fact, of the world's top 40 economies, exports accounted for the lowest share of GDP in 2023 in the US (11%). Countries in Europe and Southeast Asia find themselves at the other end of the spectrum, though relatively insulated from the US, while Canada (33%) and Mexico (36%) are

somewhere in the middle — for its part, China (20%) is on the lower side. Even with respect to imports, the US economy (14% of GDP) is at the bottom of the list in terms of general exposure.

CHART 21: PLAYING POLITICS

Trade of goods and services as a share of GDP
(percent)



Source: Guardian Capital using data from the World Bank for 2023

While a large and effectively closed economy like the US may not be reliant on trade as a driver of growth, it is still exposed to the global supply chain.

One of the major byproducts of the movement toward global free trade over the last three decades is that production processes have become increasingly integrated. All of the value added to the goods and services produced within a given economy does not necessarily originate from that country.

Inputs to the production of goods can be imported from one country and the resulting finished product then shipped abroad. A country's domestically produced goods can also be exported and serve as an input to production for foreign-produced finished goods.

Economies are intertwined and any disruptions in trade flows or increases in costs will reverberate and compound throughout the supply chain and be felt throughout the world — including the US.

So not only would Americans face higher costs on imported finished goods — of which pharmaceuticals, motor vehicles and parts, crude oil, computers and other electronics top the list — they would also feel the impact of tariffs on an array of goods that carry the “Made in America” label.

Moreover, while the goal of tariffs may be to punish exporters and support US production, there currently

are not readily available American-produced substitutes for many foreign goods.

Creating capacity takes time and likely will require shifting capital and labour from areas where the American economy has a competitive advantage (making computer software, for example) to one where it is comparatively weaker versus other countries (making computer hardware).

The ultimate result is that American businesses and end consumers are going to face higher costs for goods whether they are produced within the US borders or not — and despite what may regularly be stated, it is the importers, not the exporters, that pay the tariffs on goods shipped stateside.

Flexible exchange rates do offer a mechanism to blunt the impact of tariffs on trade, as currency depreciation will partially offset the cost hit of the tariff, but that has negative spillover effects as it makes the costs of goods and services imported from the US more expensive, which, in turn, reduces their demand at the expense of the American economy.

CHART 22: DOLLAR DAZE



Shaded regions represent periods of US recession; source: Guardian Capital based on data from Bloomberg to January 17, 2025

A divergence of monetary and fiscal policies, where exporting countries adopt more expansionary stances in an effort to replace US demand with domestic, would further weigh on exchange rates.

If the US follows through with aggressively taxing imports, there will be material implications for not just the exporters, but the American economy as well, and the bigger and broader the policy, the more significant the impact — not just the immediate weaker demand and higher costs associated with

the tariffs, but policy uncertainty would likely weigh on investment and consumption decisions as well at the detriment to growth.

Trying to repeat old successes

The baseline outlook for modest but positive growth and still moderating inflation against a backdrop of persistent risks to the outlook would appear to be constructive for fixed income.

Notwithstanding the prospect of elevated political risks and the still high, degree of uncertainty around the near-term path for monetary policy keeping rate volatility somewhat elevated in the coming months, the ultimate path of least resistance for market yields still appears to be lower as central bank easing cycle puts downward pressure on rates.

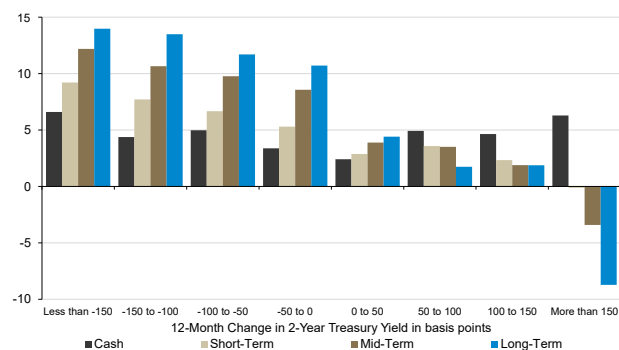
The impact, however, is likely to be felt more at the front end of the yield curve where rates are far more sensitive to monetary policy, driving a further steepening of the yield curve.

The resulting increased reinvestment risk as short-term rates decline makes assets with shorter maturities that have outperformed the broader market in recent years relatively less attractive.

History shows that a backdrop of notably rising rates is the only one in which short-term bonds and cash outperform — flat-to-down rates tend to see better performance further out the curve.

CHART 23: LONGER-TERM THINKING

Fixed income average 1-year total return by change in rates (percent; US dollar basis)

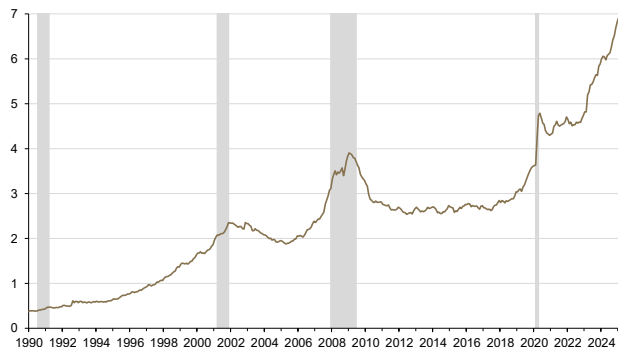


*Cash=ICE BofA 3-month Treasury bill index¹³; ICE BofA US bond indexes¹⁴; source: Guardian Capital based on data from Bloomberg from January 1979 to December 2024

The potential for even some of the massive stockpile of money sitting on the sidelines — there is nearly US\$7 trillion sitting in money market funds in the US at the moment — being moved would provide a significant tail-wind to other, longer duration, assets.

CHART 24: CASHING IN

Total money market assets, US
(trillions of US dollars)



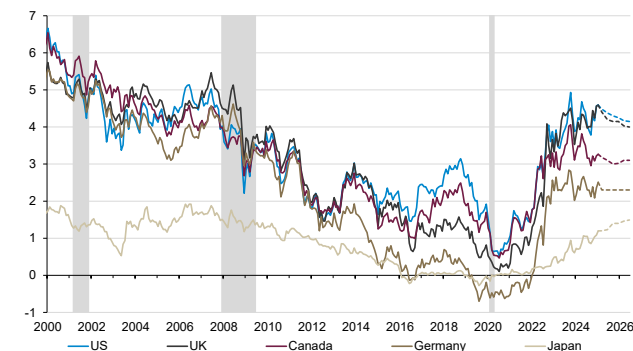
Shaded regions represent periods of US recession; source: Guardian Capital based on data from the Investment Company Institute and Bloomberg to January 17, 2025

With respect to bonds, yields on issues with longer maturities are generally expected to remain anchored reflecting the return to more “normal” supply and demand dynamics.

Central banks are no longer active participants in the market and governments worldwide continue to issue debt to fund their yawning deficits — the looming election in Canada and political unrest in Europe do not suggest a willingness to rein in spending while the prospect of the adoption of an expansionary fiscal policy in the US could add upside risk to global longer-term rates. Current forecasts are for 10-year government bond yields to hold within recent ranges for the foreseeable future.

CHART 25: HOME ON THE RANGE

10-year sovereign bond yield
(percent)

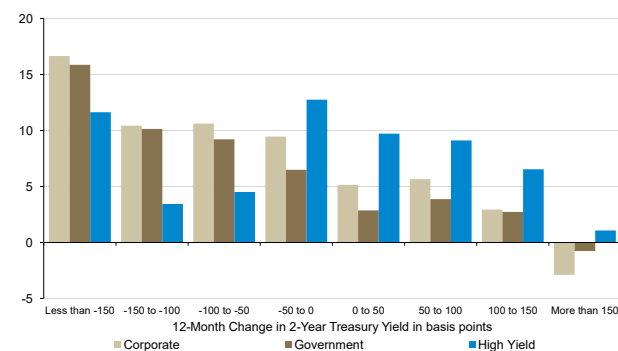


Dashed lines represent consensus forecasts as at January 17, 2025; shaded regions represent periods of US recession; source: Guardian Capital using data from Bloomberg to January 17, 2025

Moving further out the risk spectrum into credit can provide additional yield carry while also offering the potential for positive performance tied to improving credit fundamentals. High-grade corporate bonds appear to offer a somewhat better risk/return profile at the moment given current relative valuations and the outlook, while history shows quality credit issues have turned in the best performance against a backdrop of modestly declining rates.

CHART 26: CREDIT WHERE CREDIT IS DUE

Fixed income average 1-year total return by change in rates
(percent; US dollar basis)



*ICE BofA US bond indexes; source: Guardian Capital based on data from Bloomberg; source: Guardian Capital based on data from Bloomberg from January 1979 to December 2024

History doesn't repeat, but it sure does rhyme

Looking at equities, the record books will show that 2024 was another great year for global markets with aggregate benchmarks up strongly.

Those solid overall returns, however, mask underlying divergences. The US once again was the primary driver of the strength of the global

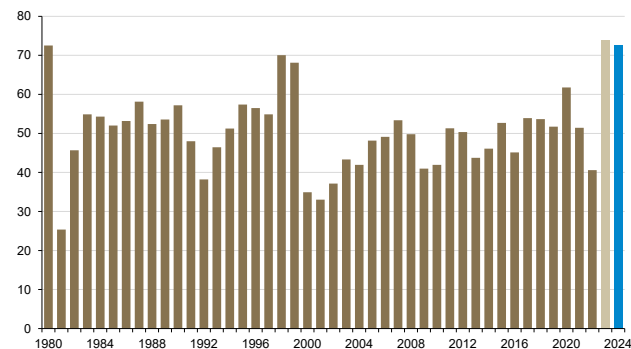
benchmark, while American exceptionalism was on further display for foreign investors as the sharp appreciation of the greenback enhanced the local currency performance and handily outpaced the increases recorded in other DM counterparts.

Even within the US, there were significant disparities among segments of the market. Just four sectors (Tech, Communication Services, Consumer Discretionary and Financials) accounted for roughly 85% of the gains in the S&P 500 while the “Magnificent Seven”¹⁵ alone accounted for more than half of the overall return.

This lack of breadth was also evident by the fact that 73% of constituent stocks underperformed the S&P 500 Index¹⁶ itself, trailing only 2023 for the narrowest breadth of performance since 1980.

CHART 27: GASPING FOR BREADTH

Share of S&P 500 constituent stocks underperforming index (percent)



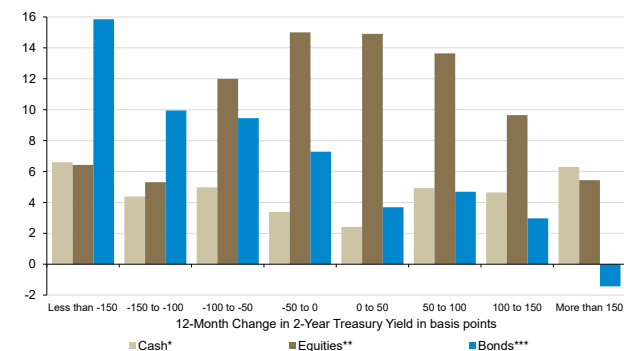
Source: Guardian Capital using data from Apollo Global and Bloomberg to December 31, 2024

Looking ahead, the underlying consumer-driven economic momentum that has been sustained through 2024 appears likely to carry into the New Year, which sets the stage for another year of modest positive (and US-led) global growth set against an ongoing moderation in inflationary pressures that would permit central banks to continue with policy easing cycles — though, the US Federal Reserve is anticipated to be less active than its counterparts.

This baseline global outlook represents a positive backdrop for equities. History shows that moderate growth and modestly declining short-term rates have coincided with stocks’ best overall performance.

CHART 28: TAKING STOCK

Asset class average 1-year total return by change in rates (percent; US dollar basis)



*Cash=ICE BofA US 3-month T-Bill Index; **Stocks=S&P 500; ***Bond=ICE BofA US Broad Market Index; source: Guardian Capital based on data from Bloomberg from January 1979 to December 2024

The risks to the outlook and the concentration of gains in recent years, however, do represent clear challenges to this track record.

For starters, the narrow group of outperformers that have been the driving force behind the 50% global stock market gains (and 70% gains stateside) since the start of 2023 creates risks to overall market indexes should these leaders experience a loss of momentum or fall out of favour — just as they pulled markets higher, they have the capacity to drag them down even if the rest of the market holds up.

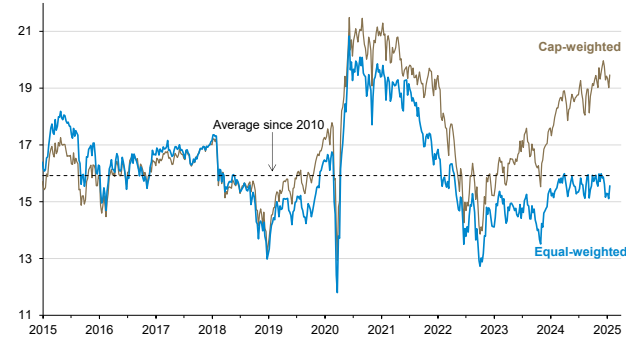
As for the uncertainties over the outlook, the potential for elevated headline risks and volatility could encourage more caution among investors that can translate into higher risk premia and, therefore, lower valuations at a time when broad market metrics are on the “expensive” side of history.

Importantly, however, the combination of historic share of stocks that have lagged the overall index performance and widening improvement of earnings suggests that most stocks are actually not all that richly priced.

For example, while the MSCI World Index ended the year trading at a valuation that stands 1½ standard deviations above its longer-term average (i.e., expensive), the version of the index in which each stock carries the same weighting (and therefore is more indicative of the average stock) trades at a valuation that is actually below its longer-term norm.

CHART 29: MOVING APART AVERAGES

Forward price-to-earnings ratio, MSCI World Index (ratio)



Source: Guardian Capital using data from Bloomberg to January 17, 2025

Further to this point, it was the case that the gains across the majority of stocks seen in 2024 (and especially in the second half of the year) were consistent with the improvement in earnings, suggesting that most stocks still trade with some room for error.

So, while politics and related headlines may generate an abundance of noise, the fact that underlying earnings momentum is still tilted to the upside and global profits are currently expected to post double-digit growth over the next 12 months, suggests there is a fundamental support for markets to attain further potential gains.

CHART 30: EARNING THEIR KEEP

MSCI All Country World Index¹⁷ earnings per share (US dollars)



The dashed line represents Bloomberg consensus forecasts; shaded regions represent periods of US recession; source: Guardian Capital using data from Bloomberg to January 17, 2025

One more time (with feeling)

Taking everything, it would seem that there is little reason to expect that the coming year will be all that different than what has played out from an economic perspective over the last few years.

The baseline outlook appears to point to continued positive global growth underpinned by the still healthy US consumer while moderating inflationary pressures could allow central banks to continue on the path toward more “neutral” stances that in turn will give some support to the more rate-sensitive goods-producing activities.

Such a backdrop would again be constructive for further gains across financial markets.

The rise in geopolitical uncertainty and the attendant increase in headline risks that may come as a result of the government transition in the US, however, represents a material risk that could mean the path forward is not without some bumps.

Moreover, a particularly inimical approach to international policy may well perpetuate the performance gap between the US and the rest of the world experienced over the last two years.

While it may well end up being that the more onerous proposals presented on the campaign trail are nothing more than negotiating tactics that may not come to fruition, the threats and their negative economic consequences cannot be dismissed out of hand and may weigh on market sentiment and increase market risk premia, suggesting that placing an added emphasis on risk management and exposure to higher quality assets that are best positioned to weather the volatility may be prudent.

David Onyett-Jeffries

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Market Returns as of December 31, 2024

All returns in CAD

CANADIAN EQUITIES

INDEX RETURNS (%)	1M	3M	YTD	1Y	5Y	10Y
S&P/TSX Composite	-3.3	3.8	21.6	21.6	11.1	8.7
S&P/TSX 60	-3.4	3.8	21.0	21.0	11.4	9.1
S&P/TSX Completion	-2.9	3.6	24.3	24.3	9.9	7.4
S&P/TSX SmallCap	-3.3	0.7	18.8	18.8	8.9	6.0
S&P/TSX Composite High Dividend	-3.3	0.8	15.7	15.7	9.4	7.6
S&P/TSX Composite Dividend	-3.2	2.0	19.8	19.8	11.1	9.0

S&P/TSX SECTOR RETURNS (%)

SECTOR RETURNS (%)	1M	3M	YTD	1Y	5Y	10Y
Communication Services	-9.2	-19.2	-21.1	-21.1	-2.4	3.1
Consumer Discretionary	-2.9	0.8	11.9	11.9	10.1	7.7
Consumer Staples	-0.6	3.6	18.9	18.9	13.4	11.0
Energy	-3.6	6.6	24.0	24.0	13.4	6.1
Financials	-1.6	6.6	30.1	30.1	13.2	11.0
Health Care	-4.3	-3.7	8.2	8.2	-21.2	-25.1
Industrials	-3.7	-0.4	9.7	9.7	11.2	10.5
Information Technology	-4.2	22.2	38.0	38.0	19.1	20.3
Materials	-5.3	-4.7	21.4	21.4	9.0	7.6
Real Estate	-6.1	-10.5	5.5	5.5	2.1	6.1
Utilities	-3.2	-1.5	13.7	13.7	5.6	7.5

INTERNATIONAL EQUITIES

INDEX RETURNS (%)	1M	3M	YTD	1Y	5Y	10Y
MSCI World Index (Net, C\$)	0.0	6.3	29.4	29.4	13.5	12.3
MSCI EAFE Index (Net, C\$)	0.4	-2.2	13.2	13.2	6.9	7.5
MSCI ACWI (Net, C\$)	0.3	5.4	28.1	28.1	12.4	11.6
MSCI France (C\$)	2.8	-4.5	3.3	3.3	6.6	8.6
MSCI Germany (C\$)	1.7	0.4	20.2	20.2	6.5	6.4
MSCI Japan (C\$)	2.4	2.6	18.1	18.1	7.0	8.6
MSCI U.K. (C\$)	-0.1	-0.8	17.3	17.3	6.6	6.1
S&P/IFC Investable (Emerging Markets)	2.2	-1.5	17.6	17.6	5.0	6.8
MSCI EAFE Growth (Gross, C\$)	-0.1	-3.2	11.6	11.6	6.5	8.5
MSCI EAFE Value (Gross, C\$)	0.9	-1.1	16.1	16.1	8.0	7.2

CANADIAN FIXED INCOME

INDEX RETURNS (%)	1M	3M	YTD	1Y	5Y	10Y
FTSE Canada 91 Day TBill	0.3	1.1	4.9	4.9	2.5	1.7
FTSE Canada Short Term Overall Bond	0.4	0.6	5.7	5.7	2.1	1.9
FTSE Canada Mid Term Overall Bond	-0.3	-0.4	4.7	4.7	1.3	2.2
FTSE Canada Long Term Overall Bond	-2.7	-0.8	1.3	1.3	-1.5	1.8
FTSE Canada Universe Bond	-0.7	0.0	4.2	4.2	0.8	2.0
FTSE Canada High Yield Overall Bond	0.8	2.5	11.5	11.5	5.6	6.1
FTSE Canada Real Return Bond Overall	-0.8	0.3	3.7	3.7	0.9	1.8

US EQUITIES

INDEX RETURNS (%)	1M	3M	YTD	1Y	5Y	10Y
S&P 500	0.3	9.0	36.4	36.4	16.9	15.6
Dow Jones Industrial Average	-2.6	7.4	25.4	25.4	12.9	14.0
NASDAQ	3.2	13.0	40.3	40.3	19.0	17.6
Russell 1000	-0.1	9.4	35.8	35.8	16.7	15.3
Russell 2000	-5.8	6.8	21.7	21.7	9.7	10.2
Russell 3000	-0.4	9.3	35.0	35.0	16.2	15.0
Russell 1000 Growth	3.6	14.0	45.5	45.5	21.5	19.3
Russell 1000 Value	-4.3	4.3	24.7	24.7	11.0	10.8

S&P 500 SECTOR RETURNS (%)

SECTOR RETURNS (%)	1M	3M	YTD	1Y	5Y	10Y
Communication Services	6.4	15.9	52.9	52.9	17.0	13.6
Consumer Discretionary	5.2	21.6	42.0	42.0	16.5	16.1
Consumer Staples	-2.4	3.0	25.3	25.3	10.8	10.8
Energy	-7.0	3.9	15.3	15.3	14.5	7.2
Financials	-2.9	14.0	42.4	42.4	14.0	13.9
Health Care	-3.7	-4.5	11.9	11.9	10.2	11.5
Industrials	-5.4	4.0	28.1	28.1	14.4	13.2
Information Technology	3.9	11.6	49.0	49.0	27.2	25.0
Materials	-8.3	-6.8	9.0	9.0	11.0	10.2
Real Estate	-6.1	-2.0	14.8	14.8	6.7	N/A
Utilities	-5.4	0.6	34.6	34.6	8.8	10.8

INTERNATIONAL EQUITIES

MSCI EAFE SECTOR RETURNS (%)	1M	3M	YTD	1Y	5Y	10Y
Communication Services	-1.8	1.4	21.2	21.2	4.3	4.0
Consumer Discretionary	6.6	1.9	10.6	10.6	6.3	7.2
Consumer Staples	-0.3	-7.0	0.5	0.5	1.0	5.0
Energy	-0.8	-2.3	-2.4	-2.4	4.9	5.9
Financials	0.9	4.0	31.9	31.9	11.3	8.2
Health Care	-3.2	-8.6	7.4	7.4	5.1	7.2
Industrials	0.6	-0.3	19.6	19.6	9.2	9.9
Information Technology	3.1	-1.2	13.2	13.2	10.5	12.4
Materials	-2.8	-12.5	-5.0	-5.0	6.7	8.1
Real Estate	-3.1	-7.8	4.9	4.9	-2.3	N/A
Utilities	-2.4	-7.2	4.6	4.6	4.4	6.0

CANADIAN FIXED INCOME

SECTOR RETURNS (%)	1M	3M	YTD	1Y	5Y	10Y
FTSE Canada Federal Bond	-0.4	-0.4	3.5	3.5	0.6	1.3
FTSE Canada Provincial Bond	-1.4	-0.4	3.1	3.1	0.0	1.9
FTSE Canada All Corporate Bond	-0.1	1.0	7.0	7.0	2.3	3.0

GLOBAL FIXED INCOME

INDEX RETURNS (%)	1M	3M	YTD	1Y	5Y	10Y
FTSE World Government Bond	0.4	0.7	5.9	5.9	-1.0	1.6

Sources: Bloomberg Finance L.P., FTSE Bond Analytics, TD Securities, Thomson Financial

Market Returns as of December 31, 2024

All returns in CAD

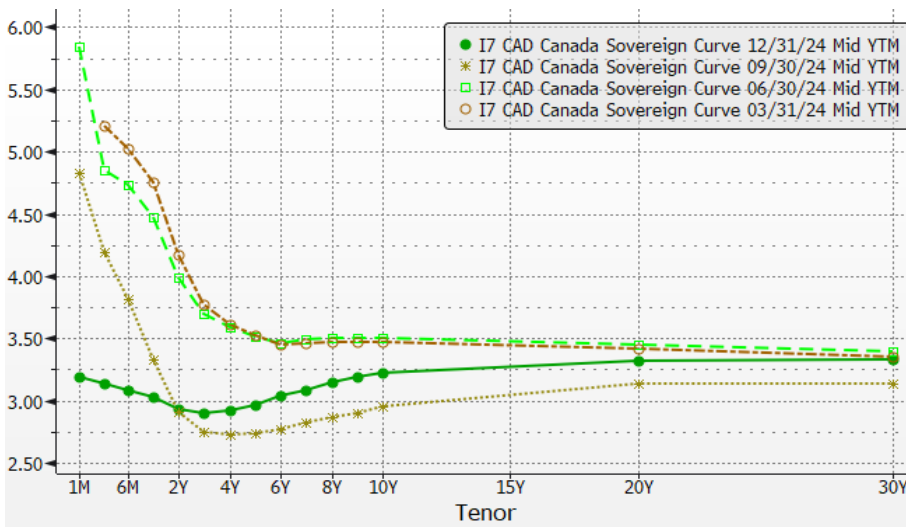
COMMODITIES

INDEX RETURNS (%)	1M	3M	YTD	1Y	5Y	10Y
Bloomberg WTI Cushing Crude Oil Spot Price	7.2	12.0	9.2	9.2	5.4	5.3
Bloomberg European Dated Brent BFOE Price	2.5	8.2	4.2	4.2	4.4	5.1
Edmonton Crude Oil Syncrude Sweet Blend FOB Spot	6.9	9.3	21.2	21.2	5.2	5.6
S&P GSCI Nat Gas Index Spot	11.0	32.3	57.6	57.6	13.0	4.5
S&P GSCI Copper Index Spot	0.0	-5.0	11.5	11.5	9.4	5.5
S&P GSCI Gold Index Spot	1.2	5.7	39.0	39.0	14.0	10.7

CURRENCY

% CHANGE	1M	3M	YTD	1Y	5Y	10Y
CAD/USD	2.7	6.5	9.1	9.1	2.1	2.2
CAD/Yen	-1.8	-3.1	-2.2	-2.2	-5.2	-0.6
CAD/GBP	1.2	-0.6	7.2	7.2	1.0	0.0
CAD/Euro	0.7	-1.2	2.2	2.2	0.5	0.6

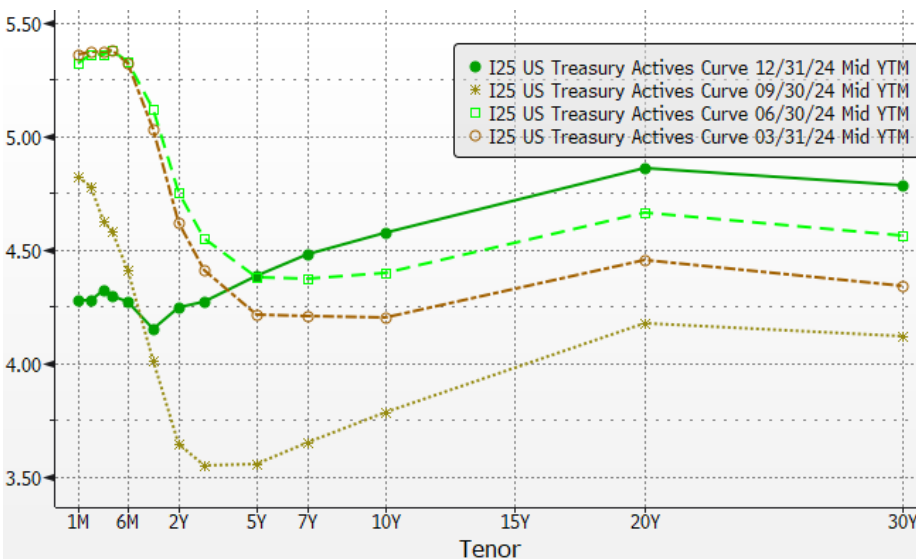
GOVERNMENT OF CANADA YIELD CURVE



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U.S. TREASURY YIELD CURVE



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Sources: Bloomberg Finance L.P., FTSE Bond Analytics, TD Securities, Thomson Financial

¹ The Purchasing Managers Index (PMI) is a measure of the prevailing direction of economic trends in manufacturing and services sectors; based on a monthly survey of companies to determine whether business conditions are improving, unchanged, or deteriorating compared to the previous survey, seasonally adjusted.

² The Citi Economic Surprise Index measures the pace at which economic indicators are coming in ahead of or below consensus forecasts. When the index is negative, it means that the majority of reports are coming in below expectations, while a positive reading indicates that most data is coming in ahead of expectations.

³ The Business Roundtable CEO Economic Outlook Index is based on a survey — conducted quarterly since the fourth quarter of 2002 — of our member CEOs' plans for hiring and capital spending, and their expectations for sales, over the next six months. Taking these factors together, the survey signals the direction of the U.S. economy.

⁴ Data centers are networks of computing and storage resources that enables the delivery of shared software applications and data. These centers can house large amounts of critical and important data, and therefore are vital to the daily functions of companies and consumers alike. As a result, whether it is a cloud, colocation, or managed service, data center real estate will have increasing importance worldwide.

⁵ Aggregate volume of merchandise trade leaving a country (exports) and entering a country (imports) on a volumes for 81 countries worldwide covering approximately 99% of world trade.

⁶ The Federal Reserve Bank of New York [Global Supply Chain Pressure Index](#) is a measure of global supply chain conditions.

⁷ Inflation measured by the consumer price index (CPI) is defined as the change in the prices of a basket of goods and services that are typically purchased by specific groups of households.

⁸ The Bank for International Settlements (BIS) supports central banks' pursuit of monetary and financial stability through international cooperation, and to act as a bank for central banks.

⁹ Percent of balance for which payment is either 90-day late, 120-day late or severely derogatory. 90+ days late is synonymous to seriously delinquent. Not all creditors provide updated information on payment status, especially after accounts have been derogatory for a longer period of time. Thus, the payment performance profiles obtained from our data may to some extent reflect reporting practices of creditors.

¹⁰ Federal Reserve Bank of New York, Quarterly report on household debt and credit;
https://www.newyorkfed.org/medialibrary/interactives/householdcredit/data/pdf/HHDC_2024Q1

¹¹ The Global Economic Policy Uncertainty Index is a GDP-weighted average of national Economic Policy Uncertainty (EPU) indices for 16 countries that account for two-thirds of global output. Each national EPU index reflects the relative frequency of own-country newspaper articles that contain a trio of terms pertaining to the economy, uncertainty and policy-related matters.

¹² The US dollar index indicates the general international value of the US dollar by averaging the exchange rates between the US dollar and 10 major world currencies weighted by their share of international trade and foreign exchange liquidity.

¹³ The ICE BofA US 3-month Treasury Bill Index is comprised of a single 3-month US Treasury Bill purchased at the beginning of the month and held for a full month. At the end of the month that issue is sold and rolled into a newly selected issue.

¹⁴ "Bonds" = ICE BofA US Broad Market Index = The ICE BofA US Broad Market Index tracks the performance of investment-grade debt publicly issued in the US markets, including sovereign, quasi-government, corporate, securitized and collateralized securities. "Short-Term" = The ICE BofA 1 to 5 Year US Corporate & Government Index = The ICE BofA US Corporate & Government Index tracks the performance of investment-grade debt publicly issued in the US markets, including sovereign, quasi-government and corporate securities with maturities between 1 and 5 years. "Mid-Term" = The ICE BofA 5 to 10 Year US Corporate & Government Index = The ICE BofA US Corporate & Government Index tracks the performance of investment-grade debt publicly issued in the US markets, including sovereign, quasi-government and corporate securities with maturities between 5 and 10 years. "Long-Term" = The ICE BofA 10+ Year US Corporate & Government Index = The ICE BofA US Corporate & Government Index tracks the performance of investment-grade debt publicly issued in the US markets, including sovereign, quasi-government and corporate securities with maturities greater than 10 years.

¹⁵ Magnificent Seven = Alphabet (Google), Amazon, Apple, Meta (Facebook), Microsoft, Nvidia and Tesla.

¹⁶ The S&P 500 is an index of 500 stocks designed to reflect the risk/return characteristics of the large-cap US equity universe.

¹⁷ The MSCI World Index captures mid- and large-cap representation across 23 developed market countries.

¹⁸ The MSCI ACWI captures large- and mid-cap representation across 23 DM and 24 EM countries

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