GUARDIAN CAPITAL

Economic Outlook

Fall 2023

SUMMARY

- Several key risks are causing the still downbeat assessment of the prospects for economic growth in the months ahead: tight monetary policy, rising geopolitical tensions, still elevated inflation, and concerns over China’s economy are at the top of the list.
- The ongoing emphasis on the risks to the outlook suggests that volatility is likely to be the name of the game, but there is reason to anticipate that the economic resiliency in the face of uncertainty that has characterized the last three years can continue.
- Global growth momentum has slowed fairly notably this year from earlier reopening boosted rates, however, it remains the case that overall growth is still positive — albeit with different degrees of verve (the US ahead of the Eurozone and Canada) and still generally signifying growth at below-trend rates
- Also, the key drivers of the better-than-anticipated performance of the last few years (most notably the consumer) remain in place, while there is a real prospect that some major headwinds (inflation and interest rates) could abate.
- Accordingly, the likelihood of an imminent recession (barring an exogenous shock to the system) continues to look overstated, with the global economy set to continue to muddle through at somewhat below trend growth rates in the months ahead.
- Volatility notwithstanding, sustained growth amid an environment of attractive valuations can provide support to assets and offer the prospect of better returns going forward.

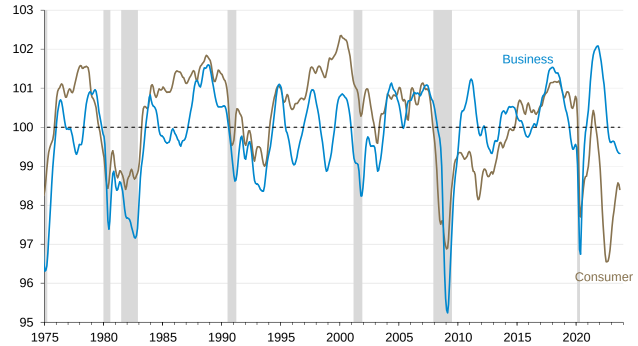
Sooner? Or later?

One of the more notable things about the post-pandemic period, particularly over the last two years, has been the persistent looming sense that things will turn for the worse.

Despite ongoing indications that conditions for consumers and businesses are generally fine in the here and now, sentiment across the broad swath of the world comprising the Organisation for Economic Co-operation and Development (OECD)[1] is highly depressed due to fears of what's to come.

CHART 1: SAGGING SENTIMENT

Consumer & business sentiment, OECD
(index; long-term average=100)

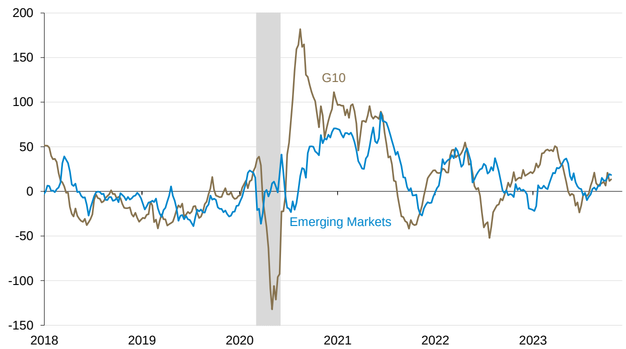


Shaded regions represent periods of US recession; source Guardian Capital using data from the OECD and Bloomberg to September 2023

To this point, however, these dour expectations have largely gone unmet. Indeed, the last few months have seen continued, and fairly broad-based, economic resiliency in the dataflow as shown by the gauges of "economic surprises" in both Developed Markets (DM) and Emerging Markets (EM) once again turning for the better.

CHART 2: ANOTHER SURPRISING TURN OF EVENTS

Economic surprise index[2]
(diffusion index; >0 denotes "better than expected" dataflow)

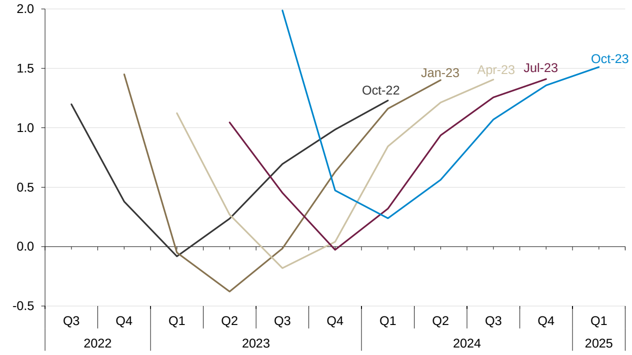


Shaded region represents a period of US recession; source: Guardian Capital using data from Bloomberg to October 20, 2023

Economic forecasters have, therefore, once again been forced to mark-to-market their near-term growth expectations higher — while also just kicking the expected slump another quarter down the road.

CHART 3: SHIFTING THE GOALPOSTS

Consensus real GDP growth forecast, G7
(quarter-over-quarter percent)

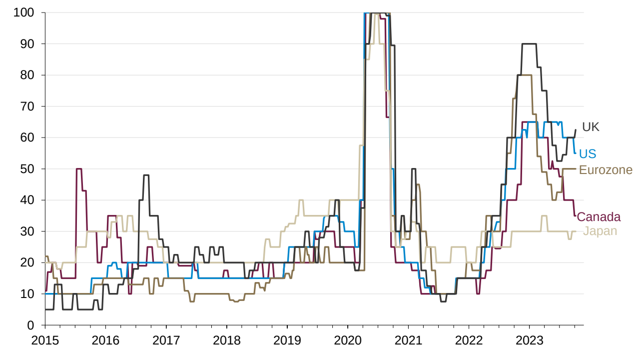


Series labels represent the date of consensus forecast, Oct-23 is as at October 20, 2023; G7=Canada, France, Germany, Italy, Japan, UK and US; source: Guardian Capital using data from Bloomberg

The sustained view that momentum will slow materially underpins the still consensus call for a recession in the coming year. Conviction has faltered from the near-certainty among the forecasting community at this time a year ago, but they still believe the odds favour an imminent downturn across the US and Europe.

CHART 4: STILL PENCILING IN A DOWNTURN

Consensus expected probability of recession in 12 months
(percent)



Source: Guardian Capital using data from Bloomberg to October 20, 2023

For sure, a recession is all but inevitable at some point in the future — all economic cycles ultimately end at some point.

The question, however, is whether the consensus will finally prove correct in assuming a downturn, with all of its negative implications for markets, will materialize sooner rather than later.

Assumption of risk

Several key risks are causing the still downbeat assessment of the prospects for economic growth in the months ahead. Chief among them is the impact of monetary policy.

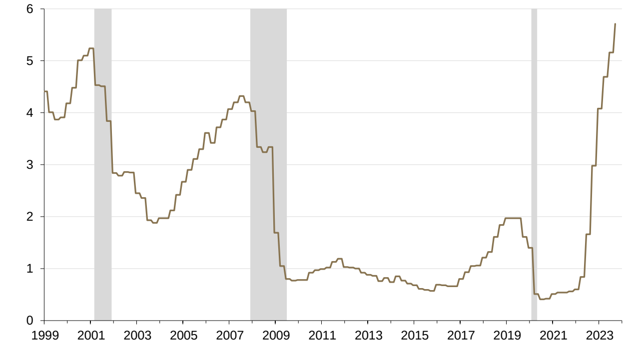
Almost every recession in the post-World War II era has the fingerprints of central bankers all over it (the exogenous shock of the pandemic being one of the few exceptions).

The long and variable lags between central bank decisions and their impact on the real economy make calibrating the broad-reaching policy difficult and tend to result in policymakers going too far, too quickly, and ultimately choking off growth.

Given the speed and magnitude of the synchronized rate hikes by global central banks (which may not yet be done), the assumption that history is destined to repeat itself is not exactly unreasonable.

CHART 5: RAPIDLY SCALING NEW HEIGHTS

Policy interest rates, Developed Markets*
(percent)



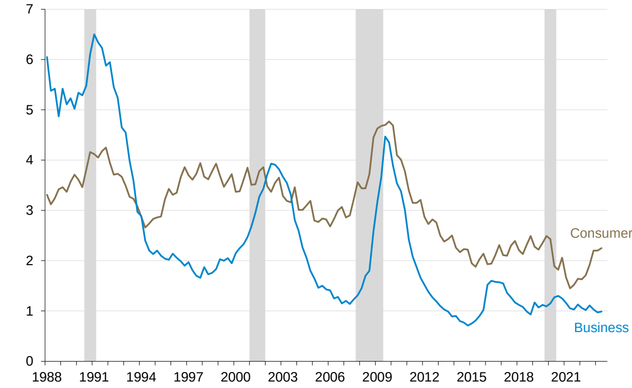
**GDP-weighted average central bank policy interest rate; shaded regions represent periods of US recession; source: Guardian Capital using data from Bloomberg and the OECD to September 2023*

These higher costs of capital are being further compounded by a tightening of credit conditions.

Lenders are raising their standards for qualifying for loans in the name of protecting their books from a potential looming downturn — though, while delinquency rates on consumer loans have risen from their lows this year (predominantly for nonmortgage loans like credit cards, mortgage delinquency rates remain at their lowest levels in more than four decades), they remain benign, and business credit quality has yet to show indications of deterioration.

CHART 6: MEETING OBLIGATIONS

Delinquent* loans at commercial banks[3], US
(percent of outstanding loan balances)

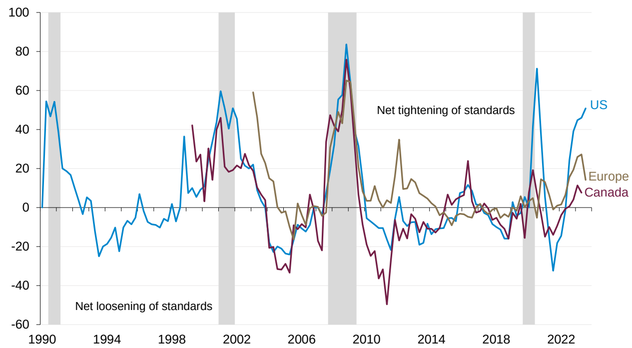


**Delinquent loans and leases are those past due thirty days or more; shaded regions represent periods of US recession; source: Guardian Capital using data from the US Federal Reserve Board (Fed) to Q2 2023*

Bank surveys in the US, Europe and Canada all point to a notable degree of tightening in standards that typically coincides with a recession.

CHART 7: RAISING THEIR STANDARDS

Balance of opinion on standards for business loans
(net percent of banks tightening versus easing)



Shaded regions represent periods of US recession; source: Guardian Capital using data from the US Federal Reserve, European Central Bank and Bank of Canada to Q3 2023

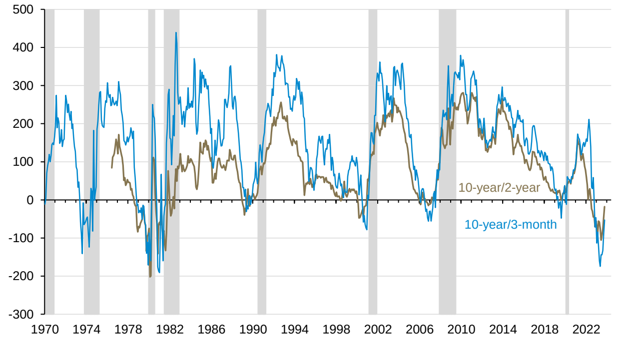
Credit is the fuel for the engine of the global economy, so a reduction in its availability is a less-than-positive omen.

Another bad sign for the outlook is the persistent inversion of the yield curve — short-term market interest rates are above longer-term rates.

Banks traditionally borrow in the short term to finance longer-term loans, so an inverted curve impacts the profitability of lending and restricts credit availability — this has historically been a harbinger of a recession within the next two years (and it first turned negative last summer).

CHART 8: CURVE YOUR ENTHUSIASM

US Treasury yield curves
(basis points)

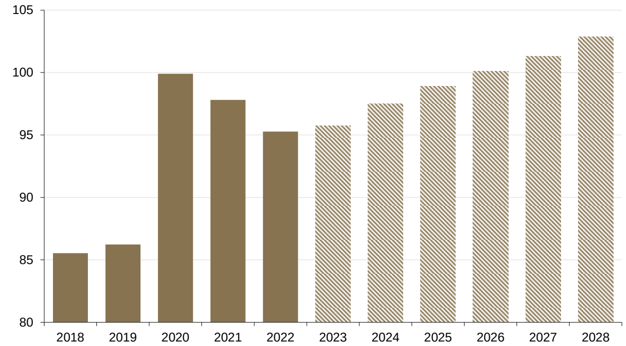


Shaded regions represent periods of US recession; source: Guardian Capital using data from Bloomberg to October 20, 2023

Fiscal policy also looks likely to act as a drag on growth going forward as higher interest rates put pressure on governments worldwide to rein in their massive structural deficits and pare the significant and increasingly onerous debt loads.

CHART 9: FISCALLY IMPAIRED

General government net debt, G7
(percent of gross domestic product)

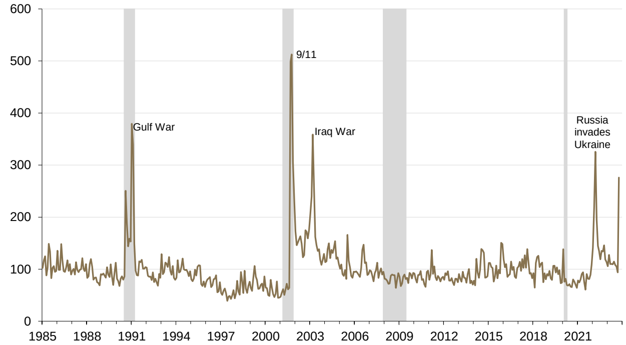


Forecasts are from the International Monetary Fund's October 2023 [World Economic Outlook][4]; source: Guardian Capital using data from the IMF.

Other risks pertaining to government policy, either domestic — with widening divides within the same legislature likely become more prominent in the lead-up to next year's US Election — or geopolitically — as the wars in Ukraine and now the Middle East keep tensions high — will remain at the forefront, likely adding to overall volatility and continuing to weigh on already downbeat sentiment.

CHART 10: GEOPOLITICAL INSTABILITY

Geopolitical risk index[5], World
(index; pre-2019 average=100)



Shaded regions represent periods of US recession; source: Guardian Capital using data from [PolicyUncertainy.com][6] to October 20, 2023

Looking inward

China is also a notable source of risk for the broader global economic outlook.

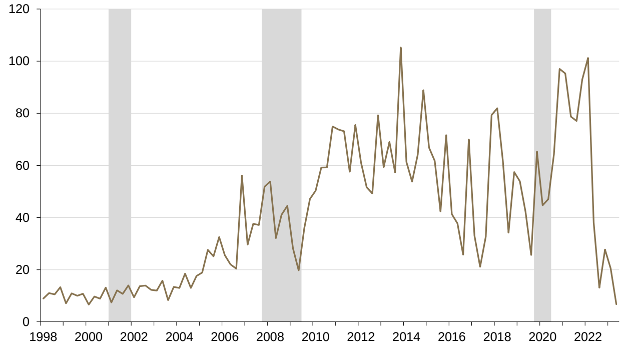
On the geopolitical front, tensions between the world's second-largest economy and the US remain at a simmer as the former seeks to increase its role on the global stage — the outcome of next year's US election could see relations turn for the worse.

Further, the shift in China's regulatory environment and rising hostility toward foreign businesses in the name of national security have weighed on sentiment and provided the motivation for companies to diversify their supply chains to the detriment of the Middle Kingdom.

Not uncoincidentally, foreign direct investment in China hit its lowest levels since at least 1998 (i.e., before China joined the World Trade Organization in 2001) over the three months ended June 2023.

CHART 11: LOSING FOREIGN INVESTORS

Foreign direct investment in China
(billions of US dollars)

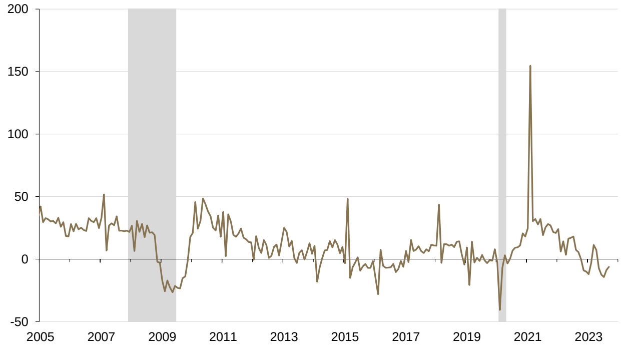


Shaded regions represent periods of US recession; source: Guardian Capital using data from China's State Administration of Foreign Exchange to Q2 2023

The increased reliance on production outside of China, combined with a general pullback in demand for goods globally following the post-pandemic boom, has factored into the slump in exports this year that has, in turn, weighed on production in the country's important factory sector.

CHART 12: THE FLOW OF GOODS SLOWS

Exports, China
(year-over-year percent change)



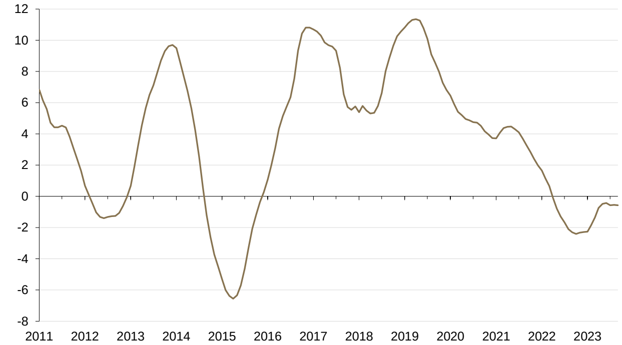
Shaded regions represent periods of US recession; source: Guardian Capital using data from Bloomberg to September 2023

The softness in China's externally-focused economic segments has compounded its more homegrown issues.

Real estate markets, previously a major focus of domestic investment and source of strength in recent years, have struggled as affordability impaired demand and put pressure on highly levered developers. This, in turn, spurred a crisis in confidence among would-be buyers that has driven a sustained decline in activity and prices.

CHART 13: A SUSTAINED SLIDE

Newly built commercial/residential building price index[7], China
(year-over-year percent change)



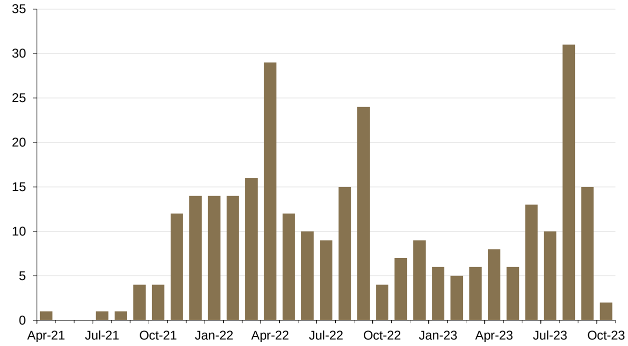
Source: Guardian Capital using data from Bloomberg to September 2023

The resulting negative wealth impact is a factor behind the lackluster performance of China's consumer sector since the start of the year. Households are spending less freely to shore up savings, weighing on activity in the services sector and further sapping business confidence.

China's leaders have stepped up efforts to bolster demand in recent months with a slate of policy easing — regulatory, fiscal and monetary — though the impacts have been only marginal to this point, raising concerns that China may not provide a material counterbalance to moderating DM growth.

CHART 14: STIMULATING CONVERSATIONS

Government stimulus measures introduced, China
(number)



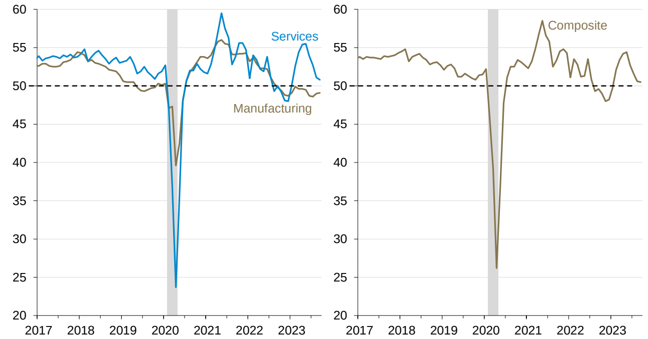
Source: Guardian Capital using data from Piper Sandler[8] to Oct. 10, 2023

It's not as bad as you think.

Against this laundry list of headwinds, global growth momentum has slowed fairly notably this year from earlier reopening boosted rates, with aggregated purchasing managers' indexes (PMI) falling to their lowest levels of the year — the gauge for the manufacturing sector has been in contractionary territory for 13-months running.

CHART 15: MODERATING MOMENTUM

Purchasing managers' indexes[9], world
(diffusion index; >50 denotes expansion)



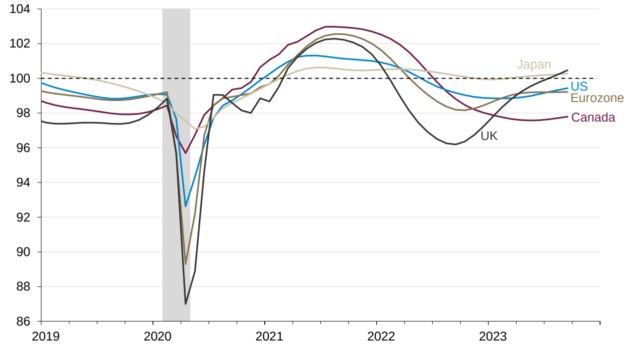
Shaded regions represent periods of US recession; source: Guardian Capital using data from Bloomberg to September 2023

That said, overall growth remains positive, and the key drivers of the better-than-anticipated performance of the last few years remain in place.

Moreover, the slate of forward-looking indicators points to momentum broadly turning for the better globally, albeit with different degrees of verve (the US ahead of the Eurozone and Canada) and still generally signifying growth at below-trend rates.

CHART 16: FOLLOW THE LEADER

Composite leading economic indicator[10]
(index; trend-growth = 100)

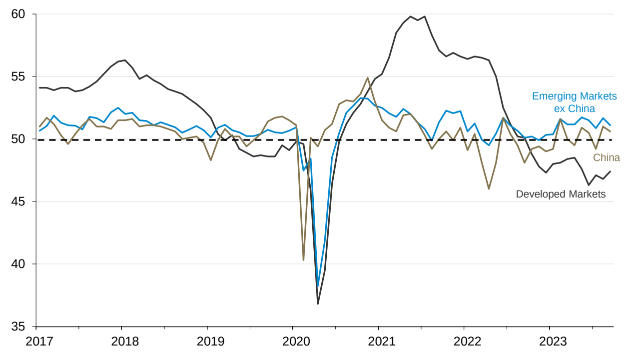


Shaded region represents a period of US recession; source: Guardian Capital using data from the OECD and Bloomberg to September 2023

For example, while the PMIs indicate factory activity worldwide is contracting, it has been doing so at a slower rate over the last few months. The DM aggregate hit a four-month high in September, while measures for the EM tread water were modestly above the growth break-even threshold.

CHART 17: FACTORIES FINDING FOOTING

Manufacturing purchasing managers' indexes[11]
(diffusion index; >50 denotes expansion)

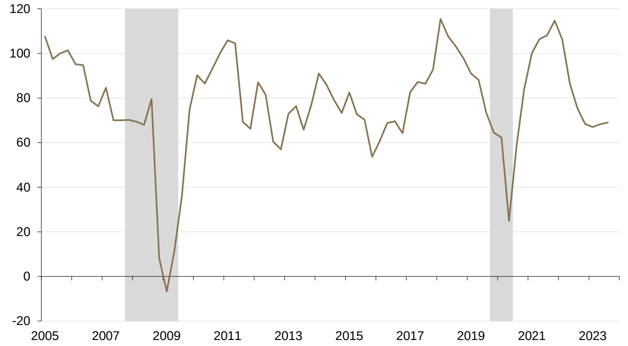


Shaded regions represent periods of US recession; source: Guardian Capital using data from Bloomberg to September 2023

The firming corresponds with a moderate pickup in capital expenditure plans despite higher costs of capital that reflect the intention to take advantage of previous government initiatives to diversify supply chains and re-shore some productive capabilities.

CHART 18: MINDS ON EXPANDING

CEO economic outlook[12] capital spending plans, US
(index)

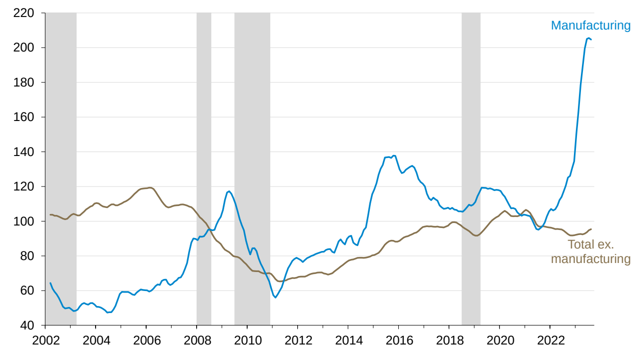


Shaded regions represent periods of US recession; source: Guardian Capital using data from Business Roundtable and Bloomberg to Q3 2023

Nowhere is this more evident than in the US, where there has been a surge of spending on factory construction — particularly for computer, electronics, and electrical manufacturing — following the introduction of the Infrastructure Investment and Jobs Act (IIJA), Inflation Reduction Act (IRA), and CHIPS Acts. Real investment in this area has more than doubled since the end of 2021 and helped to partially offset the weakness seen in other components.

CHART 19: 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 August 2023*

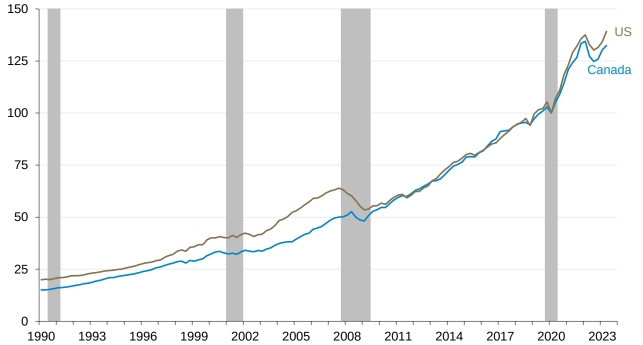
For what it's worth

The main reason to anticipate that growth momentum is unlikely to truly falter near-term is that consumers — the most important cog in the global economic machine, accounting for the bulk of activity — remain on solid footing.

Despite the turmoil in financial markets and softening in real estate, net worth (asset values over liabilities) remains at, or near, all-time highs.

CHART 20: HIGH NET WORTH FAMILIES

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

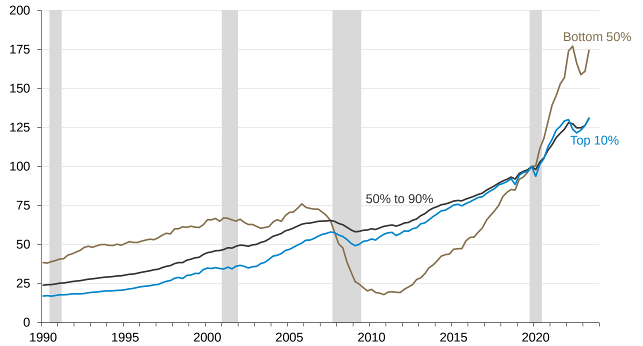


Shaded regions represent periods of US recession; source: Guardian Capital using data from the US Federal Reserve Board (Fed) and Statistics Canada to Q2 2023

Further, the wealth gains have been spread among the population — rather than just the richer households seeing their lot improve, the gains have been most pronounced (on a percent basis) among the bottom half of the wealth spectrum.

CHART 21: SPREAD THE WEALTH

Household net worth by wealth percentile, US
(index; Q1 2020 = 100)



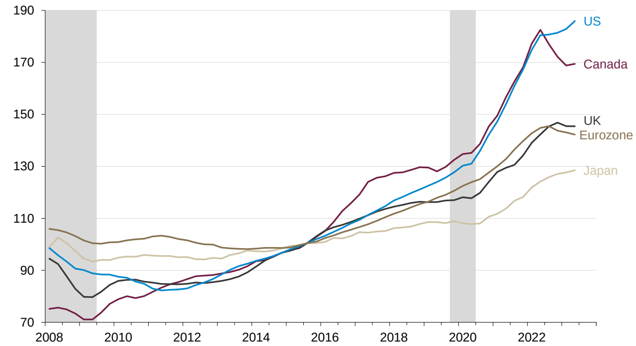
Shaded regions represent periods of US recession; source: Guardian Capital using data from the US Federal Reserve Board to Q2 2023

That the less well-off have participated in the wealth gains (unlike the post-financial crisis period a decade ago) has undoubtedly been a reason why spending, in general, has proven so resilient. These households have a higher marginal propensity to consume (i.e., they spend more of the additional funds earned from increases in wealth or income).

Looking forward, financial markets are likely to remain volatile and real estate — the largest asset on most household balance sheets — is highly sensitive to interest rates, but recent indications that housing activity is stabilizing (albeit at low levels), and home prices are showing signs of finding a floor across much of the world is a welcome sign.

CHART 22: HOUSING FINDING A FLOOR

House prices
(index; 2015 = 100)



Shaded regions represent periods of US recession; source: Guardian Capital using data from the OECD to Q2 2023

Cash on hand and flowing in

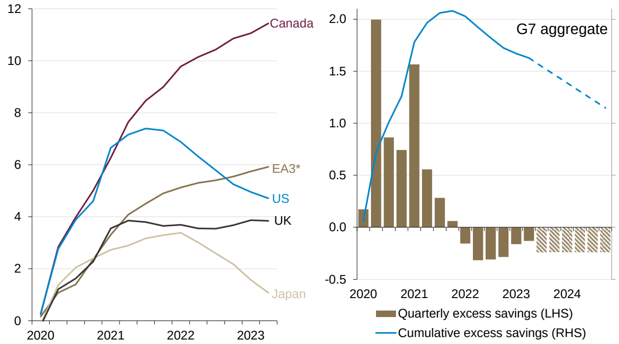
One of the big contributing factors to the health of household finances, somewhat ironically, has been the public health crisis.

The restrictions on activity instituted due to the pandemic constrained spending — especially on services, which accounted for two-thirds of household budgets pre-pandemic — while ongoing employment and the unprecedented transfer of funds from governments worldwide to those forced out of work meant savings rates jumped well above previous norms.

The net result was a vast stockpile of “excess” cash on hand that has helped cushion the impact of rising living costs. To date, only the US and Japan among the G7 have started to really draw down these “rainy day” funds — dour outlooks and higher rates available on deposits have kept savings rates elsewhere above pre-pandemic longer-term averages, and overall, reserves remain ample.

CHART 23: PLENTY OF CASH ON HAND

Excess* personal savings since 2020, G7
(percent of nominal GDP)



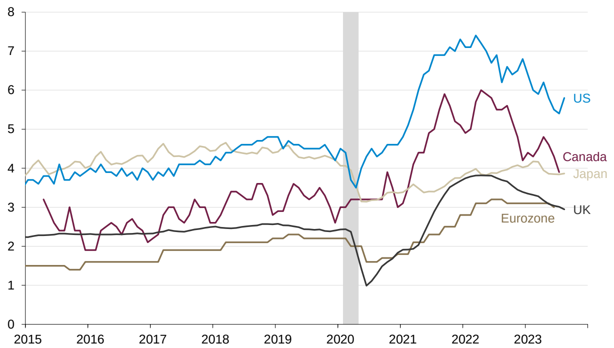
**EA3=France, Germany & Italy; **personal savings in excess of 1999 to 2019 trends; dashed line represents if spending continues at recent trend rates; source: Guardian Capital using data from the OECD, IMF and Bloomberg to Q2 2023*

Adding to this base of support for households has been the ongoing strength of job markets worldwide.

Strong consumers have supported business activity and kept firms struggling to find bodies to fill shifts even in the face of weak sentiment and persistent uncertainty over the outlook. While off from last year's peaks, job vacancy rates remain well above pre-pandemic averages in an indication of a still robust labour demand.

CHART 24: HELP WANTED

Job vacancy rates*
(percent)



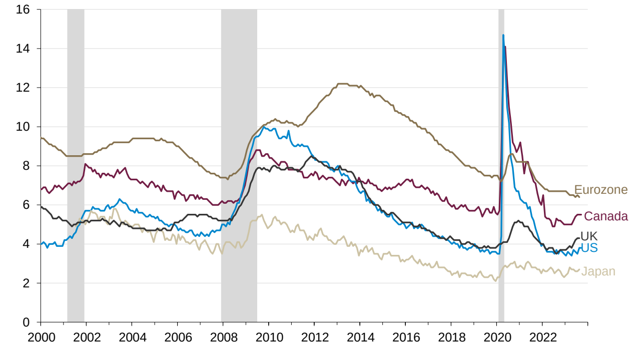
**Job openings as a share of filled and open positions; shaded region represents a period of US recession; source: Guardian Capital using data from Bloomberg to September 2023*

The difficulties in hiring over the last two years to sustain operations has also had the impact of creating a hesitancy among firms to reduce headcounts even as momentum has slowed against tighter global financial conditions — and suggest that barring a shock to the system, a material uptick in joblessness is not likely in the offing near-term.

Unemployment rates have barely budged over the last year and remain at or near their historic lows globally — the modest increases in the US and Canada are more a function of a recent pickup in population growth than an indication of job loss.

CHART 25: A WORKER'S JOB MARKET

Unemployment rates
(percent)



Shaded regions represent periods of US recession; source: Guardian Capital using data from Bloomberg to September 2023

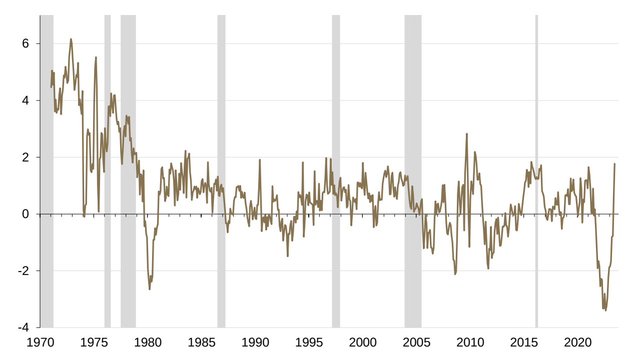
The still firm job market bodes well for continued income growth, which, combined with general strength in household finances, suggests that consumers are not yet running on fumes.

Furthermore, the fact that the high inflation that has constrained household purchasing power worldwide over the last two years is subsiding helps to mitigate financial strains — which otherwise stand to increase in the months to come as student loan payments resume stateside following a 3½-year break and the impact of higher interest rates on the costs of carrying debt becomes more apparent.

Inflation-adjusted wage growth across the G7 has turned positive after setting record lows last year.

CHART 26: EARNING REAL MONEY AGAIN

Real/inflation-adjusted average hourly wage rate, G7
(year-over-year percent change)



Shaded regions represent periods of US recession; source: Guardian Capital using data from the OECD and Bloomberg to June 2023

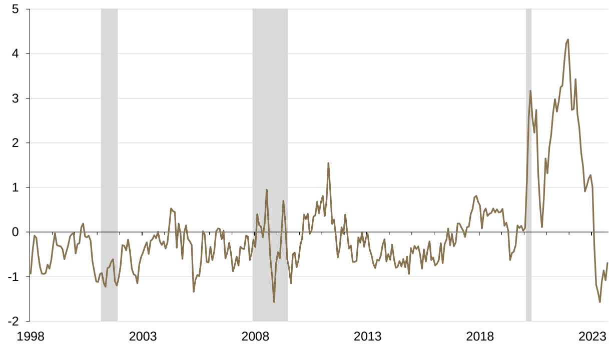
Pressure release

On the topic of inflation, it remains the case that while a recent rise in energy costs has skewed headline price gauges higher in recent months, underlying pressures are continuing to ease.

The pandemic-related kinks in the global supply chain have been ironed out as indicated by the normalization in gauges of supply-side pressures.

CHART 27: NO LONGER UNDER PRESSURE

Supply chain pressure index[13], world
(standard deviations from the average)

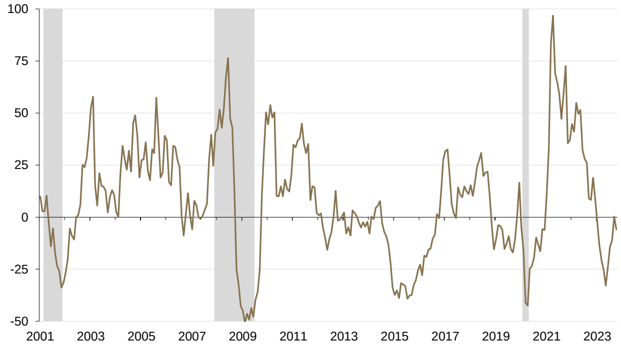


Shaded regions represent periods of US recession; source: Guardian Capital using data from New York Federal Reserve Bank to Sept. 2023

As well, even with the increase in prices for energy commodities of late, in response to developments in oil-producing regions (OPEC's announced production cuts; rising geopolitical uncertainty in the Middle East), raw materials as a whole have come off their peaks of last year and are not producing much inflationary impulse.

CHART 28: HOW MUCH ENERGY IN COMMODITIES?

S&P/Goldman Sachs spot commodity price index[14]
(year-over-year percent change)

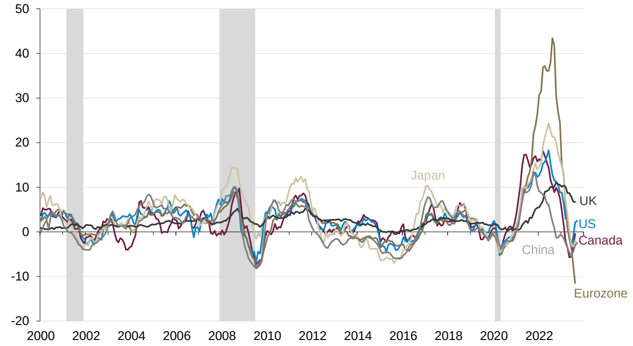


Shaded regions represent periods of US recession; source: Guardian Capital using data from Bloomberg to October 20, 2023

Taken together, overall costs of production have reversed course fairly sharply, with producer price indexes indicating easing pipeline price pressures.

CHART 29: PIPELINE PRESSURES PALING

Producer price index[15]
(year-over-year percent change)

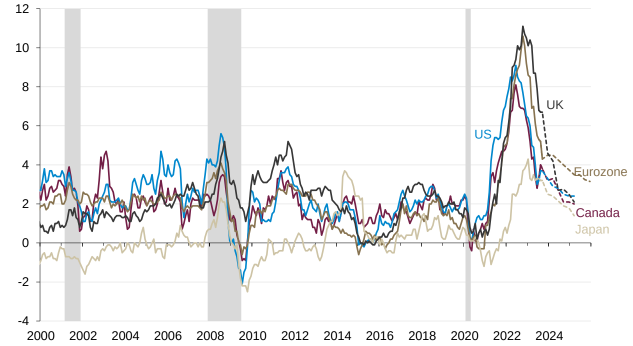


Shaded regions represent periods of US recession; source: Guardian Capital using data from Bloomberg to September 2023

Add to these supply-side developments the growing impact of starkly higher costs of capital in dampening demand — as well as consumer price gauges only beginning to reflect the decline in house prices over the last year — and the expectation is that inflation will continue on its downward trajectory in the months ahead.

CHART 30: GOING DOWN

Consumer price index[16]
(year-over-year percent change)



Dashed lines represent consensus forecasts as at October 20, 2023; shaded regions represent periods of US recession; source: Guardian Capital using data from Bloomberg to September 2023

The end is nigh

The trend in inflation right now is the friend of policymakers tasked with maintaining the purchasing power of their domestic currencies.

That said, sustained resiliency in spending and firmness in job markets likely means the rebalancing between supply and demand in the global economy does not happen as rapidly as otherwise assumed, while wages — the cost of the key labour inputs to production — may see continued verve.

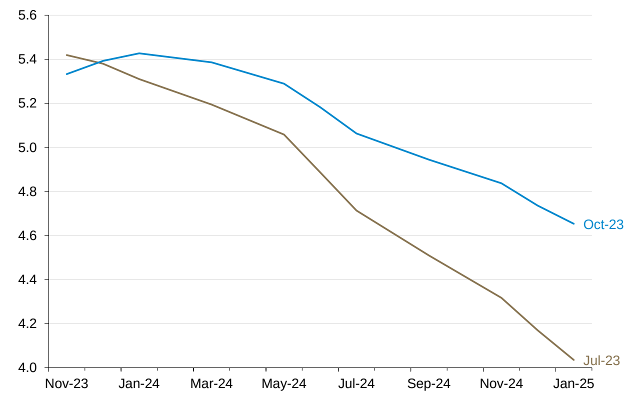
Risks to inflation, therefore, may well prove to be skewed to the upside — not necessarily suggesting that price pressures will accelerate as much as they may prove "sticky" at rates above central bankers' target zones for longer than currently assumed.

This potential is behind the recent shift in central bank proceedings in recent months that has seen the tone of the rhetoric turning more "hawkish," placing added emphasis on the need for monetary policy to remain on the tight side of the dial for the foreseeable future.

In response, while markets have not materially raised expectations about where the terminal rate will be versus three months ago, the anticipated policy pivoting over the next year has been both delayed and scaled back.

CHART 31: NOT MUCH HIGHER, BUT FOR LONGER

Fed funds futures policy implied rate target[17]
(percent)



Source: Guardian Capital using data from Bloomberg

But while the outlook suggests that near-term risk for rates continues to be skewed to the upside should the policy decision 'coin flips' land in favour of additional hikes, the longer-term outlook remains more favourable.

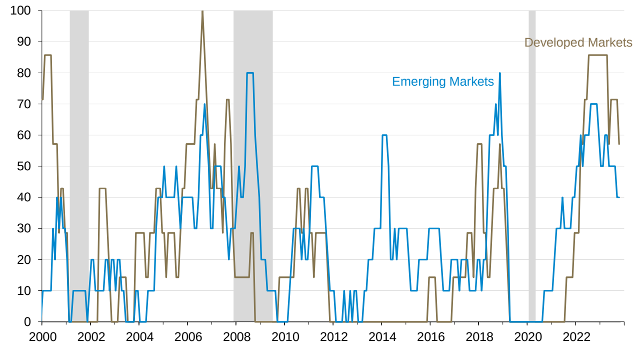
Barring an unanticipated upward thrust for inflation brought about by a surge in demand or supply-side shock, however, the aggressive, synchronous tightening cycles that began in earnest a year and a half ago are drawing to their close. As such, the balance of risk for rates for the year ahead does appear to be tilted to the downside.

The positive outcome of sustained growth and moderating inflation supports the argument in favour of beginning the gradual move away from a restrictive policy setting back toward "neutral."

This has already begun to play out in EM, where the more proactive and first-mover central bankers have not only increasingly been moving to the sidelines but have started easing policy — Brazil, Chile and Poland have already cut rates in recent months.

CHART 32: FIRST IN, FIRST OUT

Central bank policy rate direction, G20
(six-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 Settlements[18] to October 20, 2023

Alternatively, should conditions materially worsen in the event any of the litany of risks to the outlook materialize, central banks would want to adjust their stances to become more accommodative to soften the blow — the actions by China's monetary authorities would arguably fall under this category.

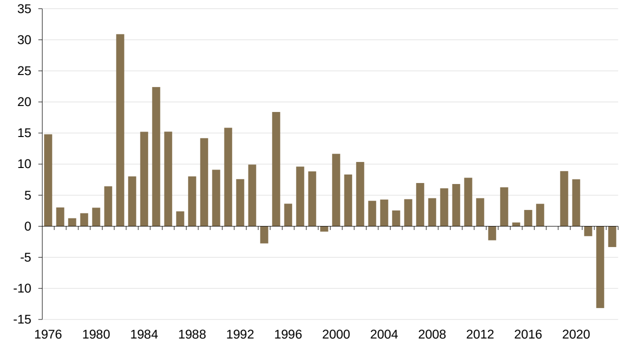
Yielding opportunities

The sharp rise in market rates over the summer resulting from the upward adjustment to consensus views for the policy path has served as an added insult to the injury already sustained by fixed income investors over the prior two years.

Globally, bond markets are currently on pace to record their unprecedented third consecutive year of negative returns. So much for being a "risk-free" asset.

CHART 33: BELOW ZERO

ICE Bank of America US Broad Market Bond Index[19] return
(percent)



Source: Guardian Capital using data from Bank of America and Bloomberg to October 20, 2023

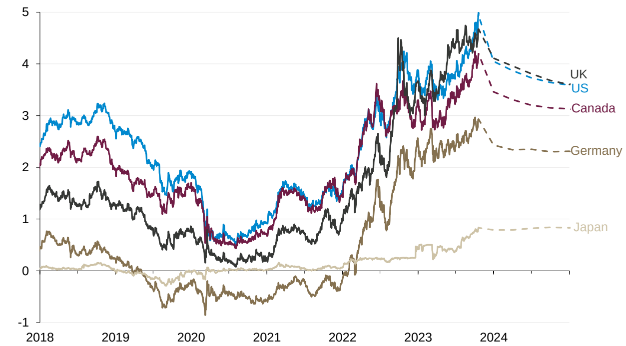
Notwithstanding the risks of rates testing higher highs in the near-term, the economic backdrop suggests that this may well prove to be as bad as it gets for fixed income asset performance.

Even if policy rates end up staying "higher for longer", the fact of the matter remains that central banks are approaching the end of the road.

The path of least resistance for rates does, ultimately, appear to be lower from here — granted, forecasts are for 10-year sovereign yields to only retrace a negligible portion of the increases seen since the start of 2022 over the forecast horizon.

CHART 34: RATES REMAIN RANGEBOUND

10-year sovereign bond yields & forecasts
(percent)



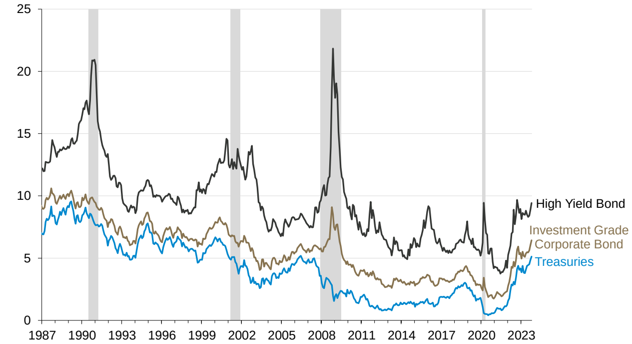
Source: Guardian Capital using data from Bloomberg to October 20, 2023; dashed lines represent Bloomberg consensus forecasts as at October 20

The prospect of rates even just ceasing their persistent rise, combined with positive, albeit slowing, growth supporting earnings, moderating inflation, and persistent uncertainty supporting a preference toward safety, does suggest that the year ahead will be more profitable for fixed income.

Such an environment would, at a minimum, suggest that bondholders could anticipate returns in the realm of coupons on offer. Yields are at more than decade highs and, therefore, offer the best return prospects for the asset class in a decade. High-grade credit is particularly compelling in this regard, as are highly liquid and short-term Treasury bills that offer a premium given the shape of the curve.

CHART 35: YIELDING RESULTS

Bloomberg bond index yields[20], US
(percent)



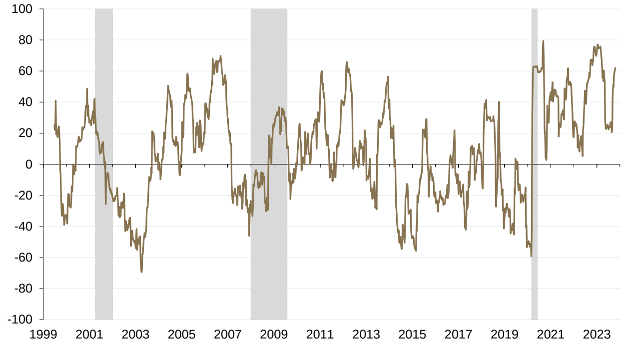
Shaded regions represent periods of US recession; source: Guardian Capital based on data from Bloomberg to October 20, 2023

Further, while the near-term upward bias for rates gives cause for pause, the higher rates available on longer-duration bonds provide opportunities from a risk management perspective for balanced portfolios, as it increases their value as a diversifier.

The yield offers decent return prospects with limited valuation risk (i.e., there appears to be more scope for rates to decline over time than to rise further), while they also provide insurance against a marked deterioration in conditions that precipitates the pricing in of rate cuts, suggesting that the highly correlated performance of stocks and bonds seen over the last year could decouple.

CHART 36: GO YOUR OWN WAY?

Stock* and bond correlation, Global**
(rolling 26-week correlation of returns)



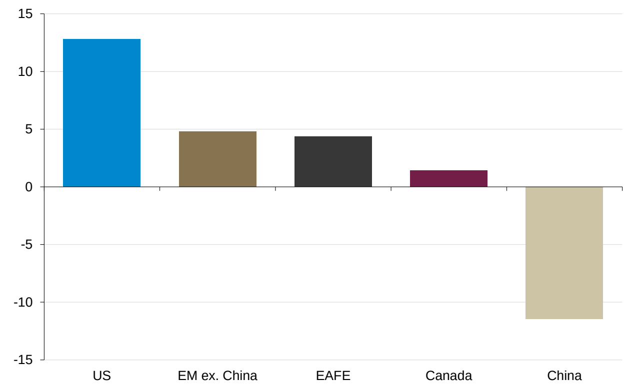
**Stocks=MSCI World Index[21]; **bonds=Bloomberg Global Aggregate[22]; shaded regions represent periods of US recession; source: Guardian Capital based on data from Bloomberg to October 20, 2023*

Inequitable performance

Turning attention to equity markets, the combination of higher rates, increased uncertainty and general market pessimism in recent months have pared year-to-date performance, but stocks still broadly remain in the green (with China a clear exception) and are well up from last year's lows.

CHART 37: GREEN LIGHT

MSCI stock market index[23] year-to-date total returns
(percent; US dollar basis)



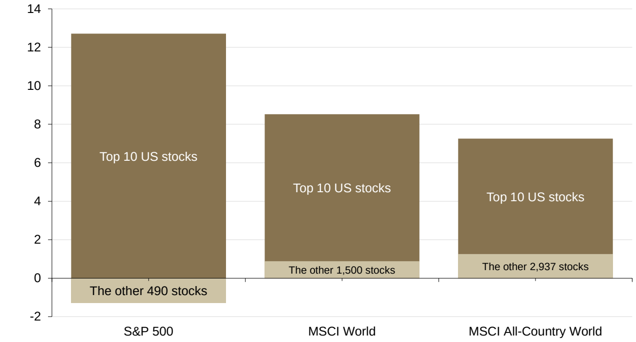
Source: Guardian Capital using data from Bloomberg to October 20, 2023

It remains the case, however, that the significant outperformance of the US is due to a very narrow subset of stocks. Returns elsewhere have been negligible.

The top 10 performers in the S&P 500 Index[24] are up by nearly 60% year-to-date while the other 490 stocks, that account for more than three-quarters of the benchmark's weight, are *down* 2%. Similarly, the returns on DM and global equity aggregates are far less impressive once the top 10 performers have been removed from the equation.

CHART 38: ALL OR NOTHING

Contribution to 2023 year-to-date price return
(percentage points)



Source: Guardian Capital using data from Bloomberg to October 14, 2023.
(MSCI All-Country World Index[25])

The narrow leadership — and general disappointment in stocks for the world's two largest economies — does not exactly speak to a particularly healthy market.

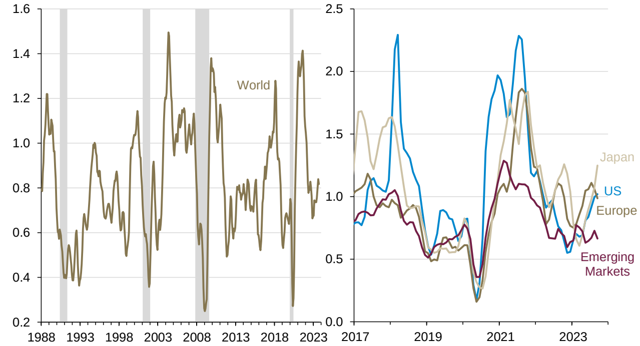
That said, this tepid overall performance appears to be more a function of weakness in investor sentiment than more fundamental issues.

As discussed, despite the proliferation of risks and heightened uncertainty over the outlook due to monetary policy and geopolitics, economic momentum remains positive.

Against this, corporate profits have outperformed pessimistic forecasts — and, like economic growth forecasts, analyst earnings estimates have been revised higher over the summer, with Japan, the US, and Europe having seen more upgrades than downgrades over the last three months.

CHART 39: TURNING THE CORNER

Three-month earnings per share revision ratios
(ratio of analyst upgrades to downgrades)



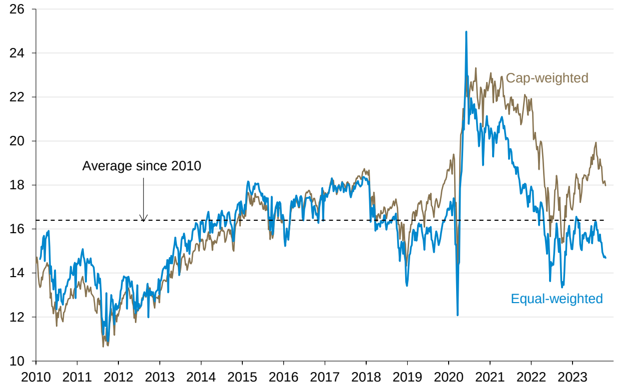
Shaded regions represent periods of US recession; source: Guardian Capital using data from Bank of America to September 2023

The broadly improving earnings backdrop mixed with a less-than-equitable rise in stocks suggests that valuations are not actually as stretched as overall metrics may suggest.

For example, while the forward price-to-earnings ratio for the market-capitalization-weighted S&P 500 Index is notably above its average since 2010, the ratio for the equal-weighted version of this index is trading at a materially below-average level.

CHART 40: MOVING AVERAGES

Forward price-to-earnings ratio, S&P 500
(ratio)

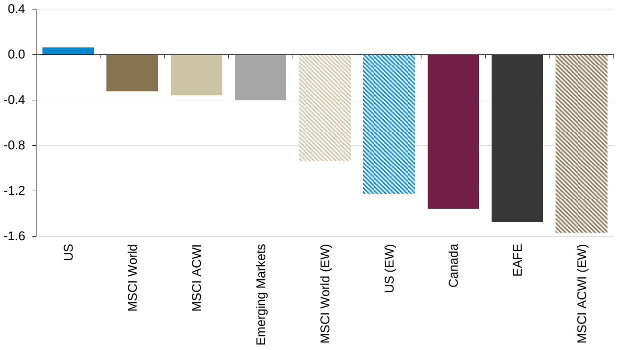


Source: Guardian Capital using data from Bloomberg to October 20 2023

So rather than the entire American stock market being arguably priced expensively and leaving limited room for error, most stocks are actually trading to the cheaper side of history and offer a cushion should earnings disappoint. There are opportunities for more active and selective investors.

CHART 41: WORTH A CLOSER LOOK

MSCI Index forward price-to-earnings ratio
(standard deviations from average since 2010)

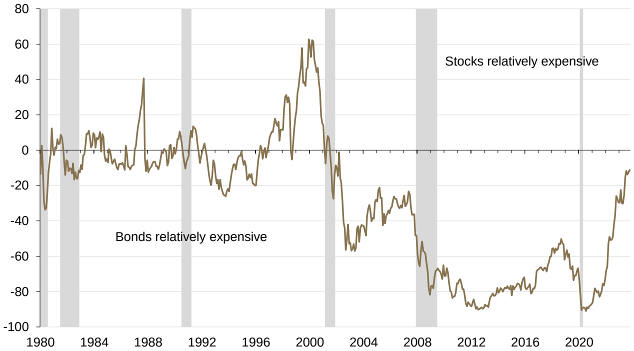


**EW=equal-weighted versions of the index; source: Guardian Capital using data from Bloomberg to October 20, 2023*

From a balanced portfolio perspective, the relative valuations and current outlook still continue to suggest that return prospects in equity outweigh those for fixed income. The far better risk/reward proposition in bonds attributed to the higher yields on offer, however, has narrowed that gap.

CHART 42: IT'S ALL RELATIVE

Fed's equity valuation model*
(percent)



**S&P 500 composite price index divided by S&P 500 fair-value defined as S&P 500 12-month forward consensus earnings per share dividend by Bloomberg Treasury bond index[19] yield; shaded regions represent periods of US recession; source: Guardian Capital based on data from Bloomberg to October 11, 2023*

The ongoing uncertainty and risks to the outlook favour a tilt toward higher-quality assets. That would suggest an emphasis on quality stocks — those of companies with high profitability, low volatility in earnings growth and low leverage — and a focus on bond issues higher up the credit quality spectrum.

Nothing imminent

The ongoing emphasis on the risks to the outlook suggests that volatility is likely to be the name of the game, but there is reason to anticipate that the economic resiliency in the face of uncertainty that has characterized the last three years can continue.

Overall growth momentum still remains positive, albeit at more moderate rates than a year ago. Also, the key drivers of the better-than-anticipated performance of the last few years remain in place, while there is a real prospect that some major headwinds (inflation and interest rates) could abate.

Accordingly, the likelihood of an imminent recession, barring an exogenous shock to the system, continues to look overstated.

Volatility notwithstanding, sustained growth amid an environment of attractive valuations can provide support to assets and offer the prospect of better returns going forward.

Market Returns as of September 30, 2023

All returns in CAD

CANADIAN EQUITIES

INDEX RETURNS (%)	1M	3M	YTD	1Y	5Y	10Y
S&P/TSX Composite	-3.3	-2.2	3.4	9.5	7.3	7.5
S&P/TSX 60	-3.2	-2.5	3.0	8.8	7.7	8.1
S&P/TSX Completion	-3.9	-0.7	4.8	12.9	5.9	5.8
S&P/TSX SmallCap	-5.2	-0.8	-1.1	7.2	3.8	4.0
S&P/TSX Composite High Dividend	-3.2	-3.4	-0.3	4.4	7.7	6.5
S&P/TSX Composite Dividend	-2.6	-1.6	2.1	7.7	7.8	8.2

US EQUITIES

INDEX RETURNS (%)	1M	3M	YTD	1Y	5Y	10Y
S&P 500	-4.8	-1.2	12.8	19.7	10.9	15.0
Dow Jones Industrial Average	-3.5	0.0	2.5	17.3	8.1	13.9
NASDAQ	-5.9	-2.0	26.0	23.0	11.4	16.5
Russell 1000	-4.8	-1.0	12.8	19.2	10.6	14.7
Russell 2000	-6.0	-3.1	2.3	7.2	3.3	9.6
Russell 3000	-4.8	-1.2	12.1	18.5	10.1	14.4
Russell 1000 Growth	-5.5	-1.0	24.7	25.7	13.4	17.7
Russell 1000 Value	-3.9	-1.1	1.6	12.6	7.2	11.5

S&P/TSX SECTOR RETURNS (%)

SECTOR RETURNS (%)	1M	3M	YTD	1Y	5Y	10Y
Communication Services	-6.2	-12.5	-10.7	-5.3	3.8	7.0
Consumer Discretionary	-2.7	-7.1	3.4	12.5	6.5	9.3
Consumer Staples	-1.3	-1.2	3.8	12.6	12.0	13.1
Energy	0.9	10.3	7.7	17.4	9.1	4.1
Financials	-2.1	-2.6	1.0	4.4	6.4	9.2
Health Care	-6.4	14.5	16.0	3.4	-30.8	-22.8
Industrials	-3.7	-4.2	4.2	11.8	9.4	12.6
Information Technology	-9.9	-7.5	36.4	53.6	15.7	18.3
Materials	-6.0	-3.8	-3.2	4.7	9.2	4.8
Real Estate	-6.8	-6.1	-3.4	3.4	1.7	7.1
Utilities	-6.8	-12.0	-7.4	-14.3	7.7	7.2

S&P 500 SECTOR RETURNS (%)

SECTOR RETURNS (%)	1M	3M	YTD	1Y	5Y	10Y
Communication Services	-3.3	5.3	40.1	36.3	8.9	10.2
Consumer Discretionary	-6.0	-2.7	26.4	11.9	8.2	14.6
Consumer Staples	-4.6	-3.9	-5.0	5.6	9.5	11.9
Energy	2.6	14.7	5.8	28.1	9.9	8.0
Financials	-3.2	1.0	-1.9	9.9	7.0	12.7
Health Care	-3.0	-0.5	-4.3	6.4	9.2	14.8
Industrials	-6.0	-3.1	4.3	22.6	8.3	13.1
Information Technology	-6.9	-3.6	34.4	38.8	19.5	23.7
Materials	-4.9	-2.7	2.4	16.2	9.6	11.7
Real Estate	-7.3	-6.9	-5.7	-3.4	5.3	N/A
Utilities	-5.7	-7.3	-14.6	-8.5	6.6	11.3

INTERNATIONAL EQUITIES

INDEX RETURNS (%)	1M	3M	YTD	1Y	5Y	10Y
MSCI World Index (Net, C$)	-4.4	-1.4	10.9	20.0	8.2	11.3
MSCI EAFE Index (Net, C$)	-3.5	-2.0	6.8	23.6	4.2	6.7
MSCI ACWI (C$)	-4.2	-1.3	9.8	18.9	7.4	10.5
MSCI France (C$)	-5.4	-5.0	9.8	32.3	5.8	8.2
MSCI Germany (C$)	-6.0	-5.7	8.6	33.3	1.2	4.8
MSCI Japan (C$)	-2.2	0.5	11.0	23.9	3.0	7.3
MSCI UK (C$)	-0.9	0.6	6.5	22.9	3.8	5.4
S&P/IFC Investable (Emerging Markets)	-2.4	0.4	3.6	11.6	2.6	5.9
MSCI EAFE Growth (Gross, C$)	-6.0	-6.6	4.4	18.5	4.5	7.7
MSCI EAFE Value (Gross, C$)	-0.9	2.9	10.4	30.3	4.4	6.5

INTERNATIONAL EQUITIES

MSCI EAFE SECTOR RETURNS (%)	1M	3M	YTD	1Y	5Y	10Y
Communication Services	-1.2	-1.3	3.6	12.5	0.0	3.3
Consumer Discretionary	-5.0	-6.3	12.4	30.6	4.6	6.9
Consumer Staples	-5.7	-5.1	-0.9	8.1	2.2	6.1
Energy	4.2	14.0	11.9	32.2	3.4	6.2
Financials	-0.5	3.0	7.8	31.8	4.2	5.8
Health Care	-3.9	-1.0	3.9	17.0	6.6	8.8
Industrials	-4.5	-4.0	11.4	30.8	4.7	7.7
Information Technology	-7.2	-8.7	12.2	27.1	7.2	11.3
Materials	-2.9	-1.0	2.2	21.7	5.9	7.6
Real Estate	-4.2	1.1	-5.3	3.7	-3.7	N/A
Utilities	-5.7	-6.9	2.4	20.6	5.0	6.2

CANADIAN FIXED INCOME

INDEX RETURNS (%)	1M	3M	YTD	1Y	5Y	10Y
FTSE Canada 91 Day TBill	0.4	1.2	3.4	4.4	1.7	1.2
FTSE Canada Short Term Overall Bond	-0.4	-0.1	0.9	1.6	1.1	1.3
FTSE Canada Mid Term Overall Bond	-2.6	-3.7	-2.0	-1.6	0.4	1.8
FTSE Canada Long Term Overall Bond	-6.0	-9.5	-4.6	-5.6	-1.8	1.9
FTSE Canada Universe Bond	-2.6	-3.9	-1.5	-1.4	0.1	1.6
FTSE Canada High Yield Overall Bond	-0.3	1.1	3.7	5.8	3.4	4.8
FTSE Canada Real Return Bond Overall	-3.6	-7.4	-7.7	-5.1	-0.6	1.5

CANADIAN FIXED INCOME

SECTOR RETURNS (%)	1M	3M	YTD	1Y	5Y	10Y
FTSE Canada Federal Bond	-2.1	-3.1	-1.7	-1.8	-0.2	0.9
FTSE Canada Provincial Bond	-3.9	-5.9	-2.8	-3.1	-0.5	1.8
FTSE Canada All Corporate Bond	-1.8	-2.2	0.7	1.7	1.2	2.4

GLOBAL FIXED INCOME

INDEX RETURNS (%)	1M	3M	YTD	1Y	5Y	10Y
FTSE World Government Bond	-3.3	-2.2	-2.9	-0.6	-1.7	1.5

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

Market Returns as of September 30, 2023

All returns in CAD

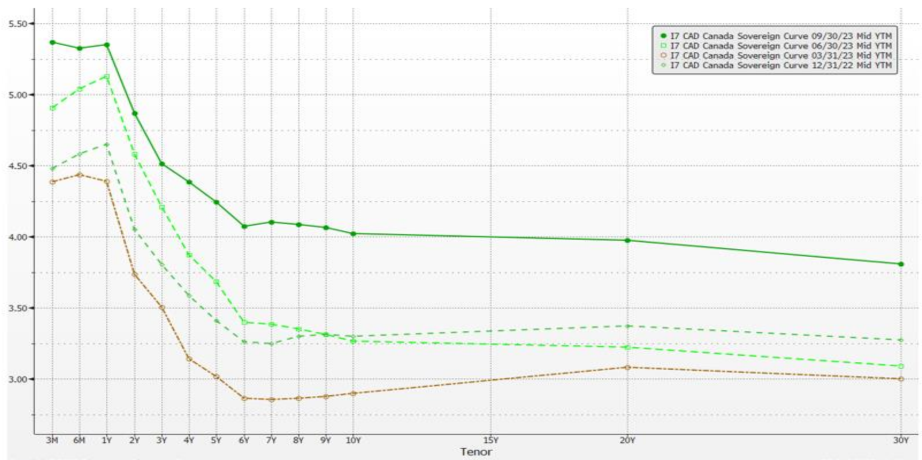
COMMODITIES

INDEX RETURNS (%)	1M	3M	YTD	1Y	5Y	10Y
Bloomberg WTI Cushing Crude Oil Spot Price	8.5	31.3	12.9	12.4	5.3	1.6
Bloomberg European Dated Brent BFOE Price	10.1	30.0	13.1	10.0	4.0	1.5
Edmonton Crude Oil Syncrude Sweet Blend FOB Spot	9.3	29.8	14.0	7.9	11.1	2.5
S&P GSCI Nat Gas Index Spot	5.7	7.0	-34.7	-57.4	0.4	0.8
S&P GSCI Copper Index Spot	-1.9	1.4	-1.6	6.4	6.6	4.1
S&P GSCI Gold Index Spot	-5.1	-1.2	2.0	9.8	10.3	6.3

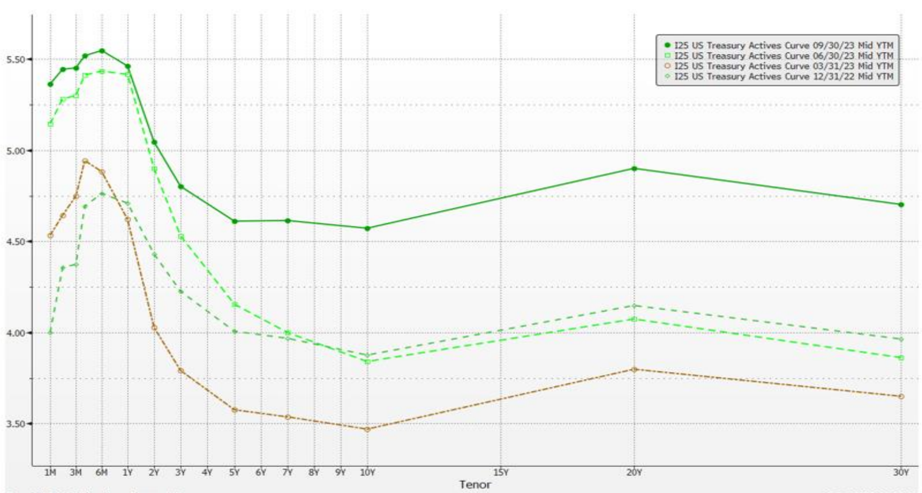
CURRENCY

% CHANGE	1M	3M	YTD	1Y	5Y	10Y
CAD/USD	-0.1	2.2	-0.2	-1.6	0.9	2.8
CAD/Yen	-2.5	-1.0	-11.8	-4.6	-4.5	-1.5
CAD/GBP	-3.7	-1.9	1.2	7.6	-0.6	-0.1
CAD/Euro	-2.5	-0.8	-1.0	6.3	-1.1	0.3

GOVERNMENT OF CANADA YIELD CURVE



U.S. TREASURY YIELD CURVE



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

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October 2023

[1] The OECD Business Confidence Index is a composite measure for the 38 OECD member countries that provides information on future developments based upon opinion surveys on developments in production, orders and stocks of finished goods in the industry sector.

[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] Loans & leases issued by US commercial banks that are past due thirty days or more and still accruing interest as well as those in nonaccrual status

[4] International Monetary Fund, World Economic Outlook, *Navigating Global Divergence,* April 10, 2023, https://www.imf.org/en/Publications/WEO/Issues/2023/10/10/world-economic-outlook-october-2023

[5] The Geopolitical Risk Index, created by Dario Caldara and Matteo Iacoviello, is a measure of adverse geopolitical events and associated risks based on a tally of newspaper articles covering geopolitical tensions. The index reflects automated text-search results of the electronic archives of 10 newspapers related to adverse geopolitical events in each newspaper for each month (as a share of the total number of news articles).

[6] 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.

[7] The Price Indices of Newly Constructed Residential Buildings (by Floor Space) in 70 Medium- and Large-sized Cities. This index shows the year-over-year change in new home building prices in China and is calculated in the weighted average method, and the weight of each city is based on the population.

[8] A number of economic stimulus measures enacted by the Chinese government.

[9] 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.

[10] The composite leading indicator (CLI) is designed to provide early signals of turning points in business cycles showing fluctuation of the economic activity around its long-term potential level. CLIs show short-term economic movements in qualitative rather than quantitative terms.

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

[12] 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.

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

[14] The S&P GSCI is the first major investable commodity index. It is one of the most widely recognized benchmarks that is broad-based and production weighted to represent the global commodity market beta. The index is designed to be investable by including the most liquid commodity futures, and provides diversification with low correlations to other asset classes

[15] A producer price index is a price index that measures the average changes in prices received by domestic producers for their output.

[16] 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.

[17] The Fed Funds Future Policy Implied Rate Target is derived from the market price of futures on the Effective Federal Funds Rate, reflecting investor expectations of changes in the future Effective Federal Funds Rate.

[18] Bank for International Settlements, *Central bank policy rates*, Statistics (https://www.bis.org/statistics/cbpol.htm)

[19] 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.

[20] The Bloomberg US Corporate Bond Index measures the investment grade, fixed-rate, taxable corporate bond market. It includes USD-denominated securities publicly issued by US and non-US industrial, utility and financial issuers. The Bloomberg US Corporate High Yield Bond Index measures the USD-denominated high-yield, fixed-rate corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch, and S&P is Ba1/BB+/BB+ or below. The Bloomberg US Treasury Index measures USD-denominated, fixed-rate, nominal debt issued by the US Treasury.

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

[22] The Bloomberg Barclays Global Aggregate Bond Index is a flagship measure of global investment grade debt from twenty-four local currency markets.

[23] The MSCI indexes are free-float weighted equity indexes and are designed to measure the performance of large and mid-cap segments of a given domestic equity market. The MSCI EAFE Index is a stock market index that is designed to measure the equity market performance of developed markets outside of the U.S. and Canada. The MSCI USA Index is designed to measure the performance of the large and mid-cap segments of the US market. The MSCI Canada Index is designed to measure the performance of the large and mid-cap segments of the Canadian market. The MSCI China Index captures large and mid-cap representation across China A shares, H shares, B shares, Red chips, P chips and foreign listings (e.g. ADRs). The MSCI Emerging Markets ex China Index captures large and mid cap representation across 23 of the 24 Emerging Markets (EM) countries* excluding China. With 672 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.)

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

[25] The MSCI ACWI is a market capitalization-weighted index of equities in both Developed and Emerging Markets