GUARDIAN CAPITAL®

Spring 2024

SUMMARY

- One of the overriding narratives with respect to the economic outlook over the last few years has been the expectation that a downturn was imminent.
- The argument was that generationally-high inflation and the aggressive and synchronized global monetary tightening cycle that came as a result would choke off growth and spur a deep recession that would result in widespread job loss, falling earnings and financial market pain.
- Despite this dearth of investor enthusiasm, however, economic activity remained resilient in the face of ongoing headwinds that were further compounded by geopolitical uncertainty.
- There were signs of growth slowing — and even some stagnation outside of the US — but expectations for momentum to fully rollover were consistently met with positive surprises.
- The dataflow now is not only suggesting that trajectory for global growth is not turning down, but there are signs that momentum was actually improving and doing so more broadly.
- Against the growing weight of evidence, and with the anticipation of major headwinds of high inflation and interest rates ebbing in the months to come, forecasters and investors have largely removed a downturn from their outlooks. Consumers and businesses are increasingly getting on board with the idea that perhaps things may not be as bad as once thought, and that those worst-case scenarios long assumed to be looming could end up being avoided.
- After a tumultuous and highly uncertain last few years, the greater clarity on the outlook easing headwinds are clearly welcome. With that said, while the economic forecasts are tilted to the upside and confidence intervals are narrower than they have been in last four years, that does not mean that there are no risks.
- In particular, there is likely to be ongoing jolts of volatility related to developments around geopolitics and the path for policy rates that will keep a focus on being selective and managing risk exposures.

A funny thing happened on the way to the downturn…

One of the overriding narratives with respect to the economic outlook over the last few years has been the expectation that a downturn was imminent.

The thinking was that generationally high inflation and the aggressive and synchronized global monetary tightening cycle that came as a result, would choke off growth and spur a deep recession that would result in widespread job loss, falling earnings and financial market pain.

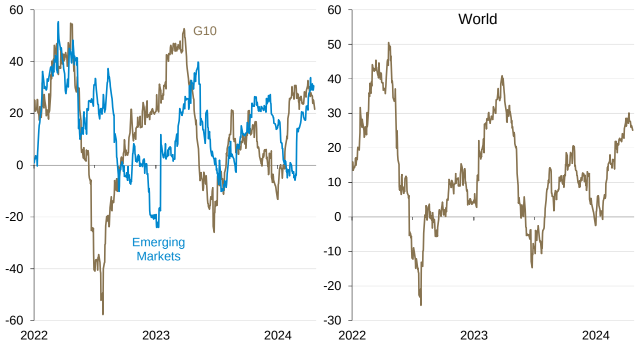
Forward-looking markets took this view to heart, with the combination of higher rates and downbeat sentiment over the outlook causing a prolonged slump in both equities and bonds.

Despite this dearth of investor enthusiasm, however, economic activity remained resilient in the face of ongoing headwinds that were further compounded by geopolitical uncertainty.

There were signs of growth slowing — and even some stagnation outside of the US — but expectations for momentum to fully roll over were consistently met with positive surprises.

CHART 1: YOU CONTINUE TO SURPRISE ME

Economic Surprise Index[1]
(index; >0 denotes better than expected dataflow)



Source: Guardian Capital using data from Bloomberg to April 19, 2024

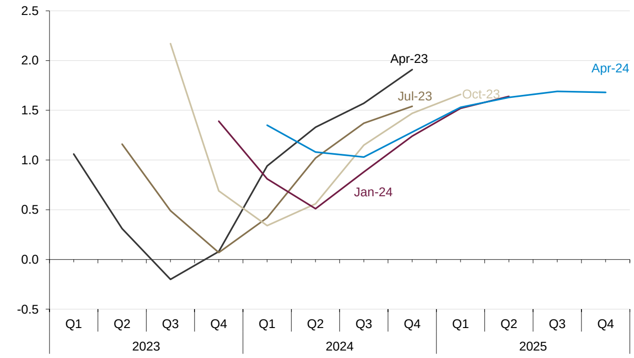
Consumers continued to spend, prompting producers to produce and maintain their payrolls, keeping labour markets tight, and, in turn, providing the capacity for ongoing expenditure.

Forecasters were repeatedly forced to revise upwards their near-term outlooks — but many recession calls were just kicked down the road with weakness anticipated to come later than previously assumed.

It was simply crisis delayed, not crisis averted.

CHART 2: UPON REVISION

Consensus real gross domestic product forecast, G7
(year-over-year percent)



Series labels represent the date of consensus forecast, Apr-24 is as at April 19, 2024; G7=Canada, France, Germany, Italy, Japan, UK and US; source: Guardian Capital using data from Bloomberg

Turn down for what?

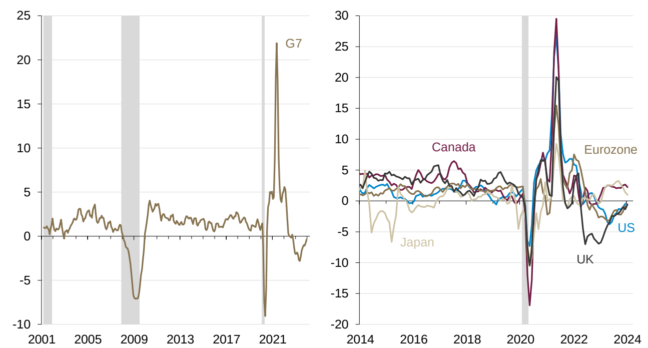
The second half of last year saw things start to change. Not only was the data flow suggesting that the trajectory for global growth was not turning down but there were more signs that momentum was actually improving and doing so more broadly.

As is often the case, it starts with consumers.

While there had been a pullback in spending on tangible goods following their post-pandemic surge, retail spending growth on an inflation-adjusted basis turned the corner mid-year with particular improvements in the US and Europe.

CHART 3: SALES' SAILS CATCHING WIND

Retail sales trade volumes
(year-over-year change in three-month moving average)

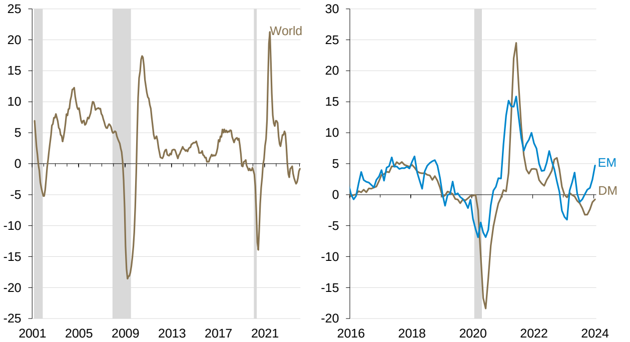


Shaded regions represent periods of US recession; source: Guardian Capital using data from the Organisation for Economic Co-operation and Development (OECD) [2] to December 2023

Echoing the turn in demand for consumer goods, international trade flows began to turn for the better as well, with growth in imports and exports stabilizing in recent months — and actually posting a notable acceleration in Emerging Markets (EM) that play a significant role in the supply chain.

CHART 4: TRADING PLACES

International trade volumes[3], World
(year-over-year change in three-month moving average)

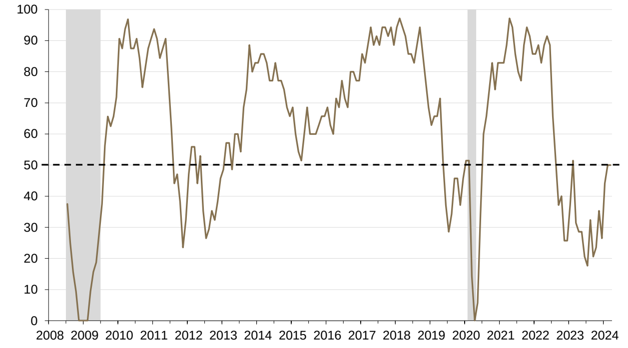


Shaded regions represent periods of US recession; source: Guardian Capital using data from CPB Netherlands Bureau for Economic Policy Analysis to February 2024

The momentum has been further confirmed by the bellwether global manufacturing Purchasing Managers' Index (PMI)[4]. This measure of factory activity had been stuck in contractionary territory since late 2022, however, it began to tick higher before ultimately breaking the "growth" threshold in January —moving up to a 20-month high in March, with the participation in the expansion of goods production broadening out notably.

CHART 5: FACTORIES CATCHING THEIR BREADTH

Manufacturing purchasing managers' indexes expanding
(percent of country indexes with readings above 50)



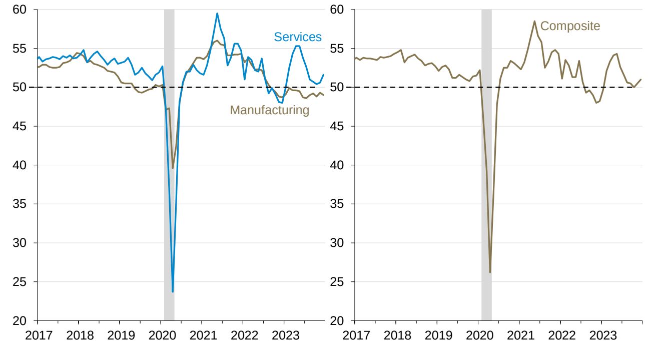
Shaded regions represent periods of US recession; source: Guardian Capital using data from Bloomberg to March 2024

At the same time, the global PMI for the more economically important service sector also turned higher at the end of last year and has seen its moderate upward momentum sustained so far through the New Year, ending March at an eight-month high.

The composite PMI aggregating countries and sectors — a proxy for broad global growth — stood at a nine-month high at the end of the first calendar quarter, pointing to continued growth in the months ahead.

CHART 6: I'M COMING UP

Purchasing managers' indexes, World
(diffusion index; >50 denotes expansion)

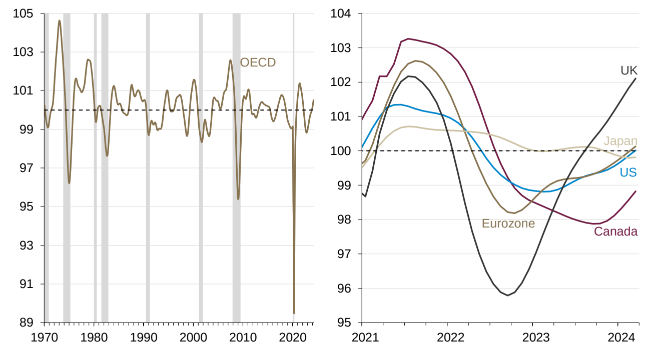


Shaded regions represent periods of US recession; source: Guardian Capital using data from Bloomberg to December 2023

Furthermore, the broader slate of leading indicators, in the aggregate, points to momentum turning for the better globally — now signaling growth consistent with longer-term trends among Developed Market (DM) economies.

CHART 7: FOLLOW THE LEADER

Composite leading economic indicator[5]
(index; trend-growth = 100)



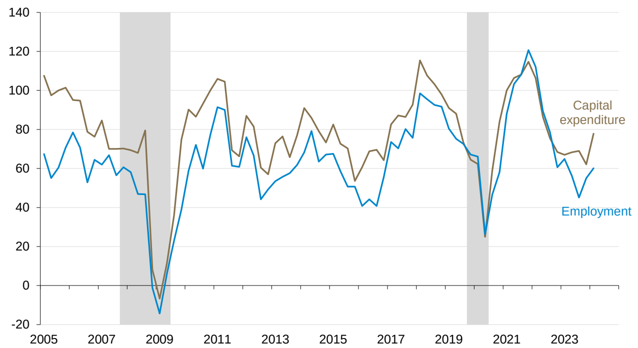
Shaded region represents a period of US recession; source: Guardian Capital using data from the OECD and Bloomberg to March 2024

The generally improved economic conditions, despite various headwinds, have convinced business leaders to rethink their spending plans. The fervour behind developments in artificial intelligence and the slate of government incentives are also likely playing a role here.

The latest survey of American chief executive officers (CEO), for example, showed an increase in plans for both capital expenditure and hiring for the first time since the end of 2021.

CHART 8: EXPANSION PLANS

CEO Economic Outlook[6] capital spending and hiring plans, US
(index)



Shaded regions represent periods of US recession; source: Guardian Capital using data from Business Roundtable and Bloomberg to Q1 2024

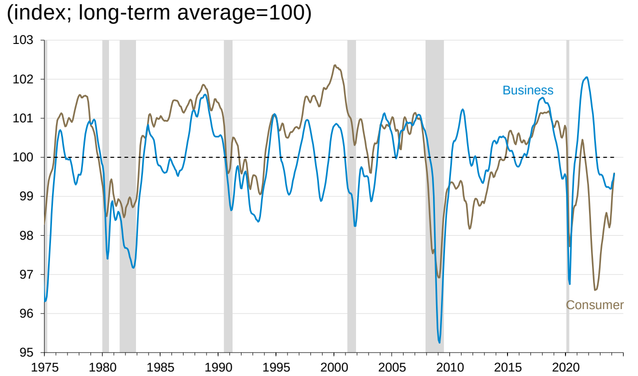
You've finally convinced me

It would appear that business more broadly, as well as consumers and markets, are increasingly getting on board with the idea that, perhaps, things may not be as bad as once thought and that those worst-case scenarios, long assumed to be looming, could be avoided.

The gauges of business and consumer sentiment across the broad swath of the world comprising the Organisation for Economic Co-operation and Development (OECD), while still historically subdued, have bounced higher of late in a sign that the greatest recession risks may now be in the past.

CHART 9: I HAVE TO ADMIT IT'S GETTING BETTER

Consumer and business sentiment[7], OECD
(index; long-term average=100)



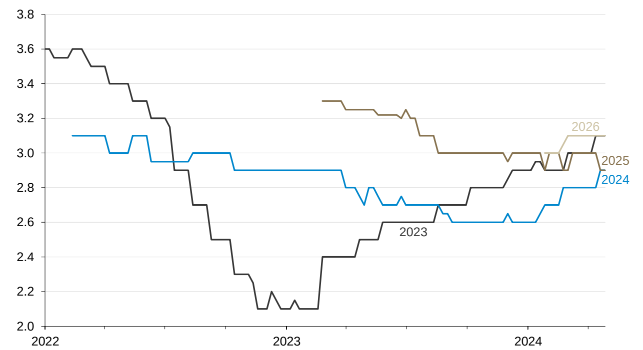
Shaded regions represent periods of US recession; source Guardian Capital using data from the OECD and Bloomberg to March 2024

Against the growing weight of evidence, and with the anticipation of major headwinds ebbing in the months to come, forecasters and investors have largely removed a downturn from their outlooks.

The consensus is now looking for global growth to effectively hold steady at rates roughly consistent with pre-pandemic trends for the entirety of the forecast horizon.

CHART 10: STEADY AS SHE GOES

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

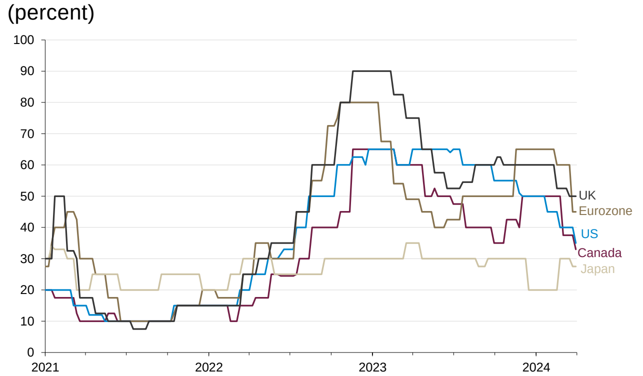


Source: Guardian Capital using data from Bloomberg to April 19, 2024

Consequently, the estimated probability of a recession across DM in the coming 12 months is *not* being given better-than-even odds for the first time since mid-2022 — the likelihood of a material downturn, however, has not yet been completely dismissed out of hand.

CHART 11: RECEDING RECESSION RISKS

Consensus expected probability of recession in 12 months
(percent)



Source: Guardian Capital using data from Bloomberg to April 19, 2024

Conspicuous consumption

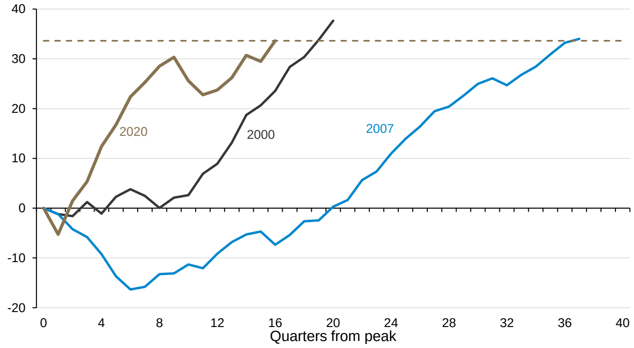
One of the primary drivers of this decreased pessimism is the continued underlying health of the single most important economic group: the American consumer.

US households alone account for more spending than China's entire economy (#2 in the world behind the US as a whole) and roughly the same as Germany, Japan, India, UK and France (#3 to #8) *combined*.

As of the end of 2023, US household net worth stood at a record high, having increased by 33% since the pandemic hit four years ago. While the gains have not been in a straight line, households have scarcely before experienced this degree of wealth gains this quickly.

CHART 12: HIGHER, FURTHER, FASTER

Household net worth, US
(percent change from pre-crisis/pandemic peak)



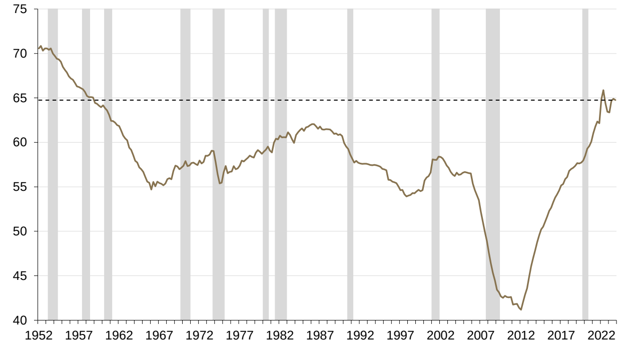
Source: Guardian Capital using data from US Federal Reserve to Q4 2023

The fact that this has occurred despite the rate-induced weakness in real estate is notable given that homes are the single biggest asset on the balance sheet of many households — but note that as sales activity and prices have stagnated, so too has the accumulation of mortgage debt, resulting in aggregate housing wealth holding near record highs.

The “owners’ equity” share of real estate assets in the US is now the highest since 1958 — a stark contrast to the plunge in housing wealth in the aftermath of the financial crisis that was a big factor constraining consumer activity over much of the subsequent decade.

CHART 13: THE NEST IS A NEST EGG

Homeowners equity* ratio, US
(percent)



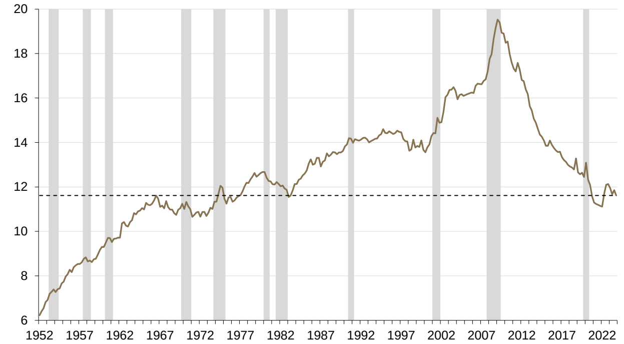
**The value of real estate assets less mortgages as a percent of real estate asset values; shaded regions represent periods of US recession; source: Guardian Capital based on data from US Federal Reserve to Q4 2023*

Elevated debt loads (and the burden of servicing them) also constrained household spending following the financial crisis.

The household debt-to-asset ratio, however, is currently around four-decade lows, suggesting limited relative leverage and a degree of insulation from the historically aggressive rise in policy rates (and, perhaps, indicating the capacity to take on debt, something that could provide support for spending on big-ticket consumer goods and housing).

CHART 14: LOW LEVERAGE SITUATION

Homeowners debt-to-asset ratio, US
(percent)

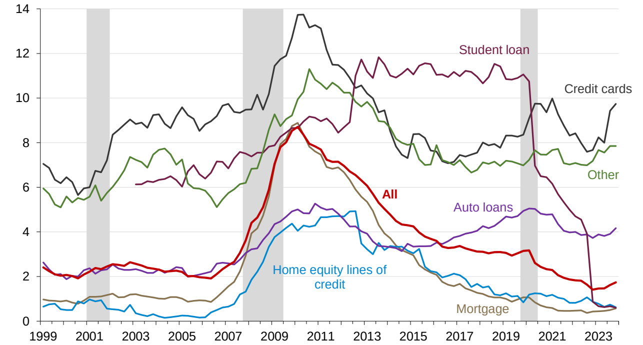


Shaded regions represent periods of US recession; source: Guardian Capital based on data from US Federal Reserve to Q4 2023

Echoing this, overall household loan delinquencies have so far remained historically benign (especially for any housing-related credit; the trend in credit card delinquencies stands out), indicating that consumers have, to this point, generally been able to weather the impact of higher rates and inflation.

CHART 15: MEETING OBLIGATIONS

Percent of loans 90+ days delinquent by type[8], US
(percent of outstanding loan balances)



Shaded regions represent periods of US recession; source: Guardian Capital using data from the Federal Reserve Bank of New York[9] to Q4 2023

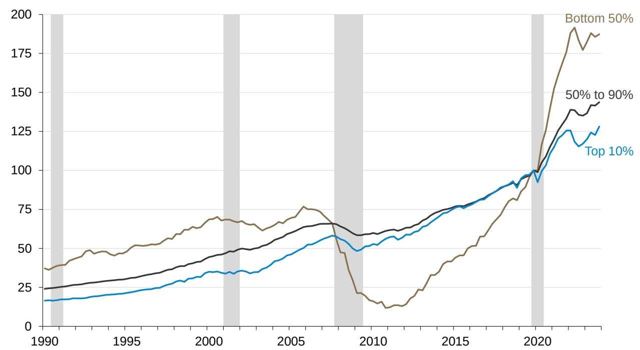
A key reason behind this is that although a significant gap exists between the wealthy and less wealthy households — and the former continue to punch well above their weight with respect to accumulated wealth — it has been the case this cycle that those at the lower end of the wealth spectrum have been registering bigger increases on a relative basis.

Not only did the bottom 50% of households by wealth experience materially smaller percentage drawdowns at the onset of the COVID-19 crisis in Q1 2020 than their wealthier counterparts (a glaring difference from the experience post-Financial Crisis, where the collapse in home prices gutted the poorer half's net wealth), but the subsequent strength in real estate and financial markets, and surge in saving have driven a relatively outsized jump in this cohort's wealth.

As of the end of 2023, net worth among the bottom 50% of American households by wealth was near twice its pre-COVID levels — for comparison, the wealth of the 50th to 90th percentile of households is up 45% versus its pre-COVID high, while the top 10% up a relatively meagre 30%.

CHART 16: SPREAD THE WEALTH

Household net worth by wealth percentile, US
(index; Q4 2019 = 100)



Shaded regions represent periods of US recession; source: Guardian Capital based on data from US Federal Reserve to Q4 2023

Moreover, the fact that those at the lower end of the wealth spectrum have been fully participating in the upswing makes the resiliency of consumer spending this cycle less of a surprise.

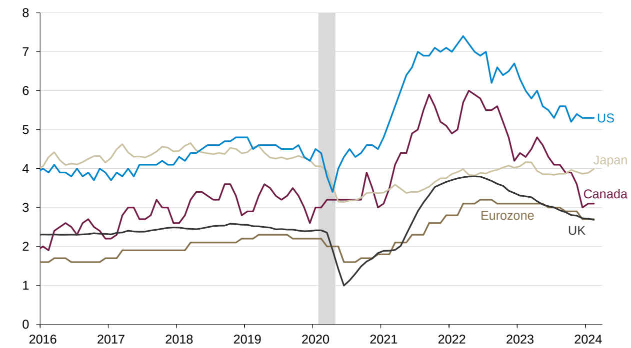
The wealth effects on spending are relatively larger for those less-well-off households (i.e., lower-wealth households spend more out of each dollar increase in net worth than their wealthier counterparts), so their stronger financial base has played a significant role in underpinning economic activity.

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

Solid consumer spending has supported business activity and kept demand for workers elevated. Job vacancy rates broadly remain above pre-pandemic levels, albeit off their recent peaks, as firms (worldwide) remain in search of adequate staffing.

CHART 17: HELP WANTED

Job vacancy rates*
(percent)

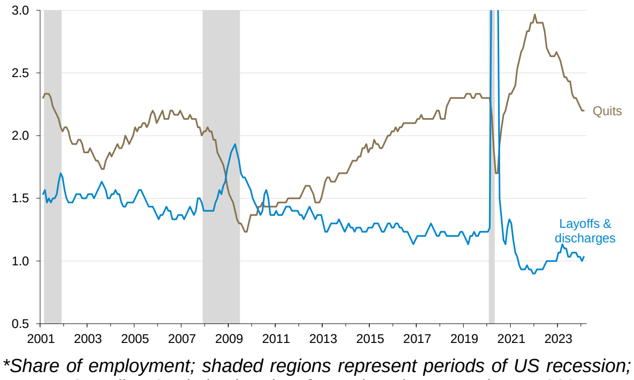


**Job openings as a share of filled and open positions; shaded region represents a period of US recession; source: Guardian Capital using data from Bloomberg to March 2024*

Corroborating this is the fact that layoffs remain limited, and while the decline in those quitting suggests some cooling at the margin, it also points to businesses' efforts to retain staff in a market that still favours the suppliers of the labour input to production.

CHART 18: MAINTAINING HEADCOUNTS

Job separation rates by type*, US
(percent, three-month moving average)

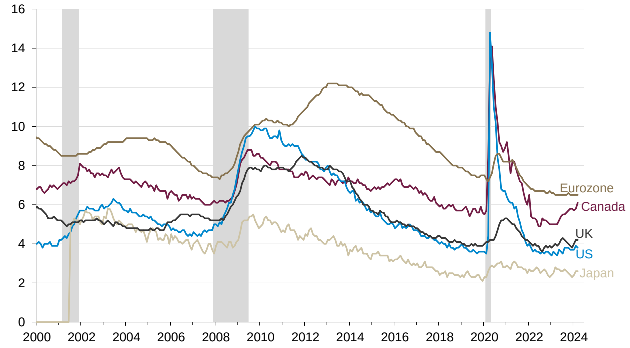


**Share of employment; shaded regions represent periods of US recession; source: Guardian Capital using data from Bloomberg to February 2024*

As a result, unemployment rates have barely budged over the last year despite the tightening of financial conditions and remain at or near their historic lows globally. Even the increases in the US, Canada and the UK are more a function of a recent surge in population growth than any job loss.

CHART 19: WORKERS OF THE WORLD UNITE

Unemployment rates
(percent)



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

A still firm job market bodes well for continued income growth, which, combined with the strength in finances—households continue to sit on a massive stockpile of excess cash that is roughly equivalent to Germany's economy—suggests there is still scope for the US consumer to continue to serve as a driver for global growth.

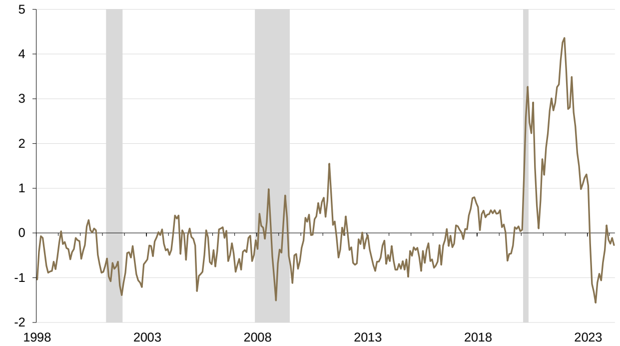
Fading headwinds

Another boon to consumers is that inflationary pressures have ebbed substantially over the last year, giving them more bang for their buck.

The kinks in the supply chain caused by the pandemic have been ironed out and have driven an almost complete unwind of those supply-side price pressures that played a significant role in pushing inflation rates to generational highs worldwide.

CHART 20: PRESSURE RELEASED

Supply Chain Pressure Index[10], World
(standard deviations from the average)

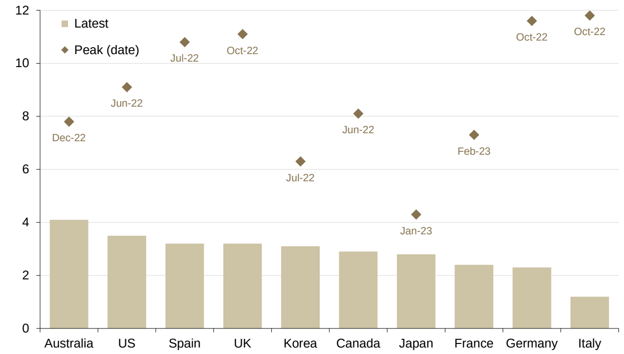


Shaded regions represent periods of US recession; source: Guardian Capital using data from New York Federal Reserve Bank to March 2024

Even with solid underlying demand, this has factored into the sustained downtrend in the rate of increase in consumer prices. Inflation has already fallen within arm's reach of central bank targets in many regions — and is expected to also fall to more tolerable levels in other areas later this year.

CHART 21: FAR MORE TOLERABLE

Consumer Price Index[11]
(year-over-year percent change)

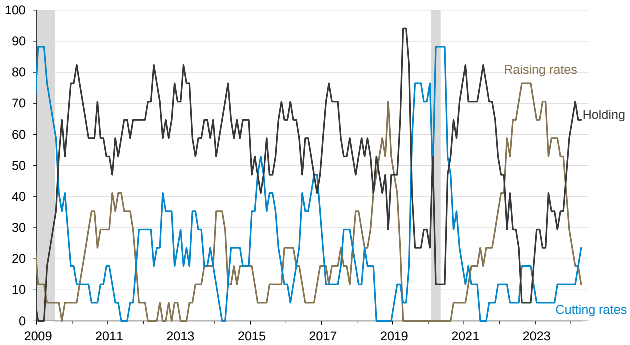


Source: Guardian Capital using data from Bloomberg as at March 2024

Accordingly, the stewards of their respective currencies at central banks have effectively all moved to the sidelines and signaled intentions to move toward a less restrictive policy. A handful of monetary policy authorities in EM, that moved early, have already made their first volleys (including those in Argentina, Brazil and Mexico).

CHART 22: HOLD MY CALLS

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

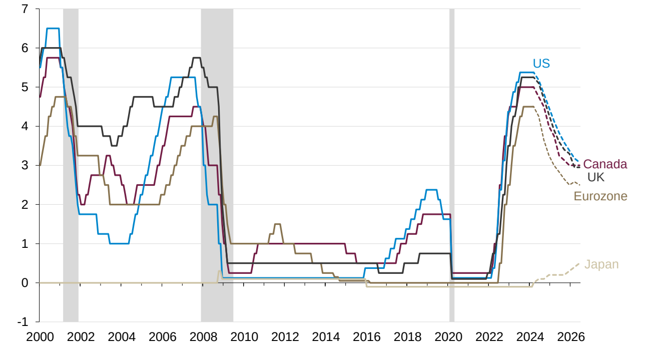


Shaded regions represent periods of US recession; source: Guardian Capital using data from Bloomberg and the Bank for International Settlements[12] to April 19, 2024

It is now near-universally expected that the next move by central banks will be to cut rates in what is anticipated to be a gradual downshift into a "neutral" policy setting — the Bank of Japan (BOJ), which was not compelled to move in tandem with its peers over the last two years, an exception.

CHART 23: DOWNSHIFTING TO NEUTRAL

Central bank policy interest rates
(percent)



Dashed lines represent overnight index swap (OIS) implied rates as at April 19, 2024; shaded regions represent periods of US recession; source: Guardian Capital using data from Bloomberg to April 19, 2024

Given that high inflation and interest rates have long been assumed to be the catalysts of a downturn, the idea that these pressures are anticipated to ease going forward represents another notch in the "plus" column for the outlook.

Risk assessment

The outlook for these key headwinds, however, has undergone a shift in tandem with the improvement in growth prospects.

The expectation of aggressive proactive rate cuts by DM central banks that were being priced in at the end of last year (and fueled the rally in broad financial markets) looked incredibly misplaced at the time, given the economic reality, and there has been a steady retracement this year.

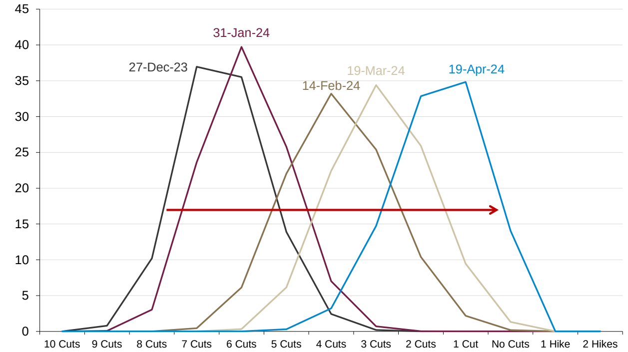
The start of the easing cycle has been pushed out and the path is somewhat shallower, but cooperative inflation still means that the likes of the European Central Bank (ECB), Bank of Canada (BOC), and Bank of England (BOE) are on track to begin loosening the monetary policy screws sooner rather than later (with June decision dates circled on their calendars).

The situation is a bit more complicated for the US, where underlying price pressures in its relatively less-interest-rate-sensitive economy are not fading as quickly as previously assumed. Upside surprises for inflation have been a significant bogey for the outlook and markets in recent months.

As it stands, the previous expectations to cut the policy rate nearly in half in the US by year-end have been pared back materially, and, while cuts are still the base case, markets are increasing the odds of the US Federal Reserve (Fed) standing pat for the remainder of the year (and risks of further hikes are rising).

CHART 24: MOVING TARGETS

Market-implied probabilities of US Federal Reserve policy path by year-end 2024
(percent)



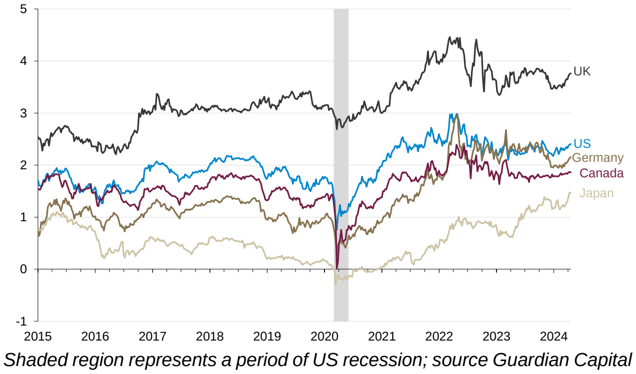
Source: Guardian Capital based on data from CME FedWatch[13] to April 19, 2024

Indeed, perhaps the biggest risk to the outlook is that the positives concerning growth, and their corollaries for inflation, impede the ability of central banks to begin to unwind the last two years' worth of policy tightening.

The increase in market-based measures of inflation expectations, and the threat of these gauges losing their anchor, is not a welcome development on this front.

CHART 25: INFLATED EXPECTATIONS

10-year break-even[14] inflation rates
(percent)

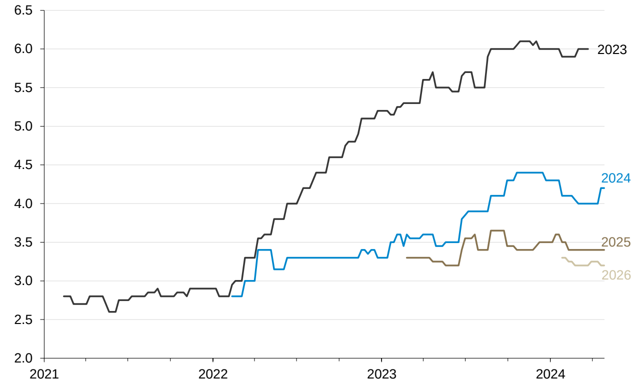


Shaded region represents a period of US recession; source Guardian Capital using data from the Bloomberg to April 19, 2024

Neither is the upward trend in forecasters' revisions to their projections for inflation, which have been persistent to the upside since the middle of last year, moving up with growth forecasts.

CHART 26: NOT SO FAST

Consensus consumer price inflation, World
(percent)

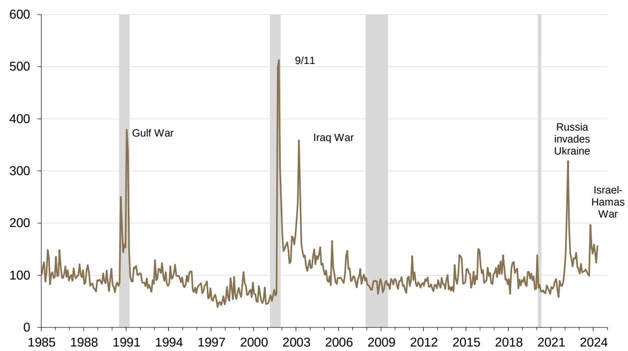


Source: Guardian Capital using data from Bloomberg to April 19, 2024

The destabilizing impact of rising geopolitical tensions — which is showing no signs of abating any time soon, especially as the US presidential election looms — also poses an overt risk to the global outlook, while also exacerbating inflation concerns, given the threat of increased trade barriers, supply chain snarls and escalation in the perpetual tinderbox that is the oil-producing Middle East.

CHART 27: GEOPOLITICAL INSTABILITY

Geopolitical Risk Index[15], World
(index; pre-2019 average=100)



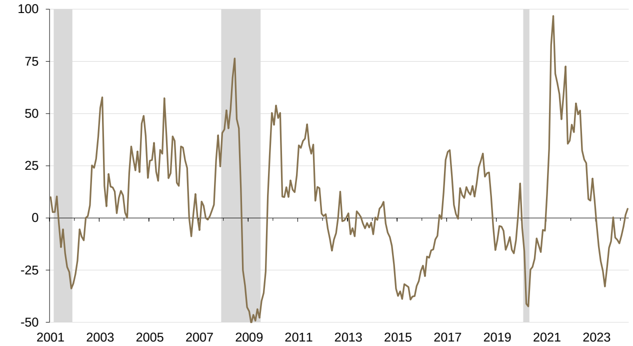
Shaded regions represent periods of US recession; source: Guardian Capital using data from [PolicyUncertainy.com[16]] to April 19, 2024

Crude oil prices have risen against turmoil on the other side of the Atlantic, while commodity prices, more generally, have firmed with the improvements in broad growth expectations.

This has, in turn, put upward pressure on top-line measures of inflation, especially in EM where food and energy take up a bigger relative share of household budgets.

CHART 28: A HOT COMMODITY

S&P/Goldman Sachs Spot Commodity Price Index[17]
(year-over-year percent change)



Shaded regions represent periods of US recession; source: Guardian Capital using data from Bloomberg to April 19, 2024

Sticking to the baseline

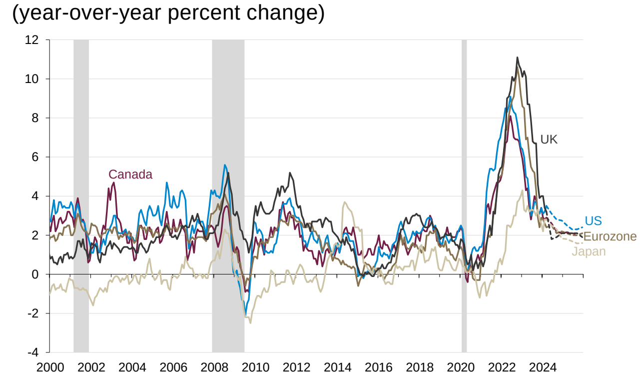
Notwithstanding the concerns, the base case remains that underlying inflationary pressures are likely to moderate further from their pandemic-induced highs in the months ahead.

Goods inflation has faded as logistical processes have normalized. Shelter costs that enter into official statistics with notoriously long lags have turned, as real estate markets feel the impact of higher rates. Other services inflation is elevated, but on a gradual downtrend as the reopening lift subsides, and signs of moderating wage pressures should help in this more labour-intensive area of the economy.

Inflation's trajectory remains on track even if the pace of deceleration is slower than hoped. It is ultimately anticipated to return closer to target within the not-to-distant portion of the forecast horizon.

CHART 29: GOING DOWN

Consumer Price Index[18]
(year-over-year percent change)

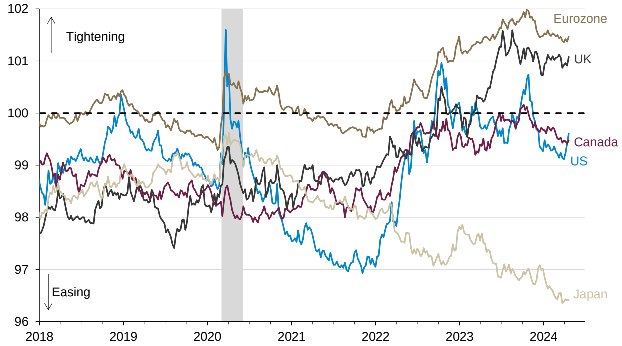


Dashed lines represent consensus forecasts as at April 19, 2024; shaded regions represent periods of US recession; source: Guardian Capital using data from Bloomberg to March 2024

This progress would permit central banks to adopt less stringent policy stances, resulting in less tight financial conditions, that would prove supportive of the demand for credit — this could be particularly beneficial for Europe where gauges point to a tighter general environment than prevails in North America.

CHART 30: WELL-CONDITIONED

Financial Conditions Index[19]
(index; 100=long-term average)

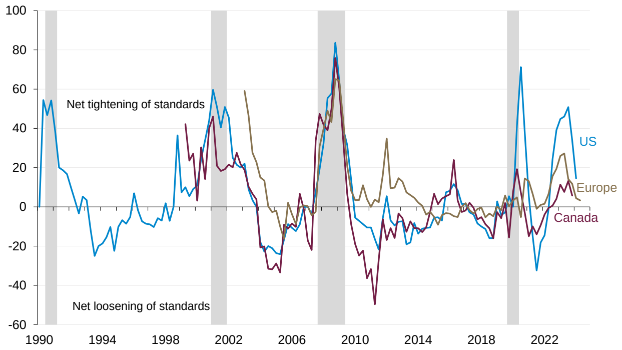


Shaded region represents a period of US recession; source: Guardian Capital using data from Bloomberg to April 19, 2024

Note, though, that the improvements in the macroeconomic backdrop and general health of balance sheets have already seen an easing of credit conditions. Surveys show that lending standards are on the tight side, but any further easing here, combined with the improvement in sentiment, could serve as a support to momentum.

CHART 31: LOWERING YOUR STANDARDS

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



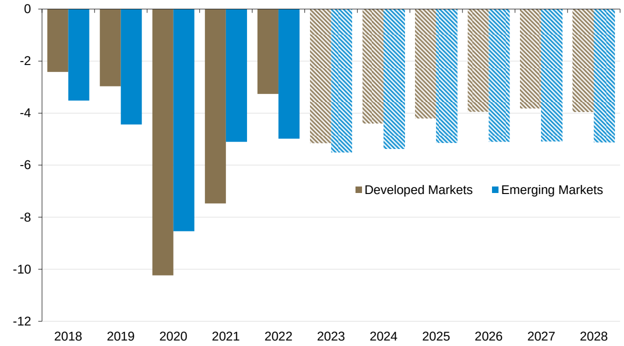
Shaded regions represent periods of US recession; source: Guardian Capital using data from US Federal Reserve, European Central Bank and Bank of Canada to Q1 2024

A final consideration, though, is that the transmission of easier monetary policy to the broader economy could be constrained.

Governments worldwide have shown little interest in reining in highly expansionary policies adopted following the pandemic — adding to the demand thrust on inflation. Budgetary shortfalls remain substantial and the interest in softening up constituents ahead of impending elections could see fiscal positions deteriorate further.

CHART 32: FISCALLY UNFIT

General government fiscal balance
(percent of gross domestic product)

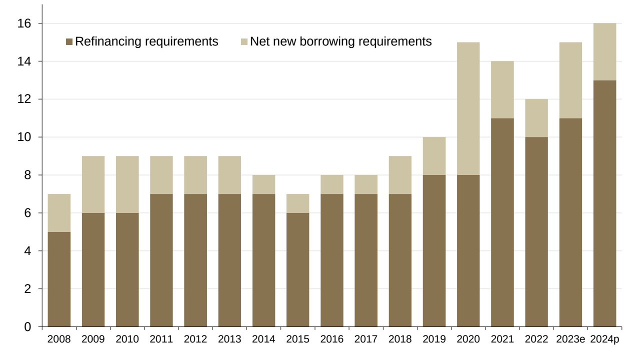


Forecasts are from the International Monetary Fund's April 2024 World Economic Outlook[20]; source: Guardian Capital using data from the IMF

As a result, government debt loads are expected to continue growing, with global sovereign borrowing requirements projected to hit a new all-time high.

CHART 33: GIVE ME SOME CREDIT

Net sovereign borrowing requirements
(trillions of US dollars)



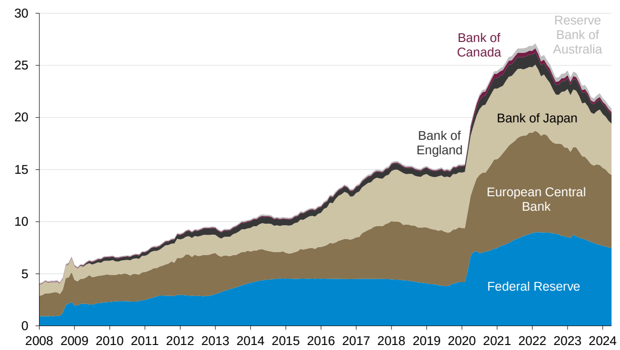
e="estimate"; p="projection"; source Guardian Capital using data from the OECD's Global Debt Report 2024[21] (March 2024)

In an environment of zero interest rates and captive bond buying from central banks, there was little consideration of the broader impact of government debt issuance — not to mention the effect on fiscal standing.

Importantly, though, central banks are no longer active in markets, with major central banks instead reducing the size of their balance sheets.

CHART 34: GETTING OUT OF THE GAME

Central bank asset holdings
(trillions of US dollars)



Source Guardian Capital using data from Bloomberg to April 19, 2024

The looming flood of supply could face difficulties being absorbed in the more price-sensitive market, which could result in upward pressure on benchmark yields — which, in turn, would put added pressure on government fiscal plans.

Equity and inclusion

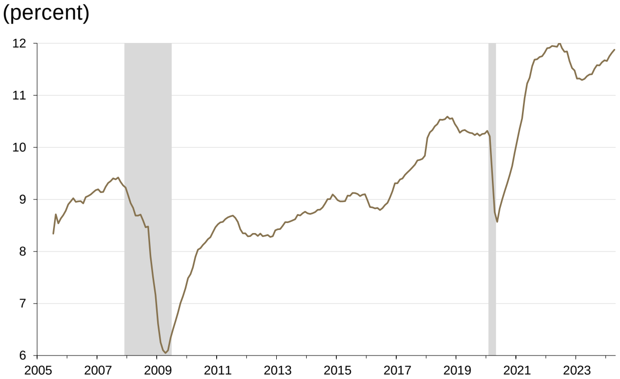
An economic backdrop of broadening positive-if-unspectacular growth, moderating cost pressures and declining interest rates is one that remains highly constructive for risk assets.

Economic growth translates into corporate top-line gains while declining costs support margin expansion and profitability.

Margins that had been ebbing — and taken as a negative omen for profits and the cycle — have started to tick higher since the middle of last year.

CHART 35: BETTER AT THE MARGIN

MSCI World Index[22] forward profit margins
(percent)

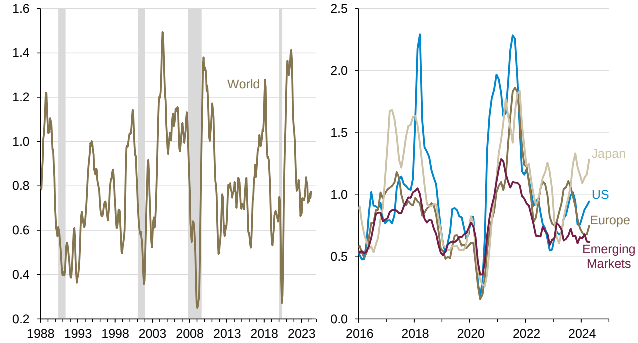


Shaded regions represent periods of US recession; source: Guardian Capital using data from Bloomberg to April 19, 2024

Accordingly, earnings expectations have turned for the better as well, with analysts making more upward (or fewer downward) revisions in recent months.

CHART 36: TURNING THE CORNER

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

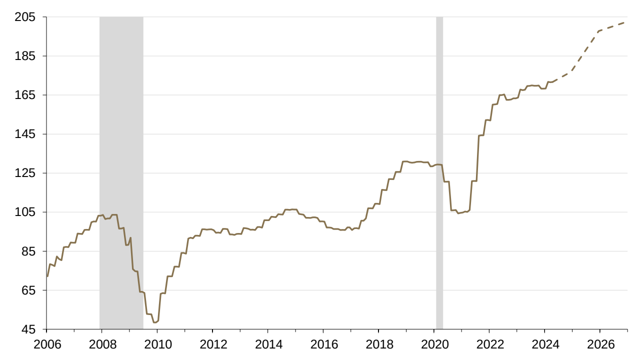


Shaded regions represent periods of US recession; source: Guardian Capital using data from Bank of America to April 2024

Overall, global earnings are forecast to break out of their slump from the past year and expand at rates of nearly 10% per year through 2025 — though regional variation suggests more near-term strength in the US versus the rest of the DM.

CHART 37: EARNING THEIR KEEP

MSCI World Index 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 April 19, 2024

Looking at equity market valuations would suggest that this buoyant earnings profile has already been factored into prices — and then some.

The price-to-earnings ratio for the broad global market is elevated versus its historical norms and history would suggest that valuations around the current level do not set up for particularly robust return prospects.

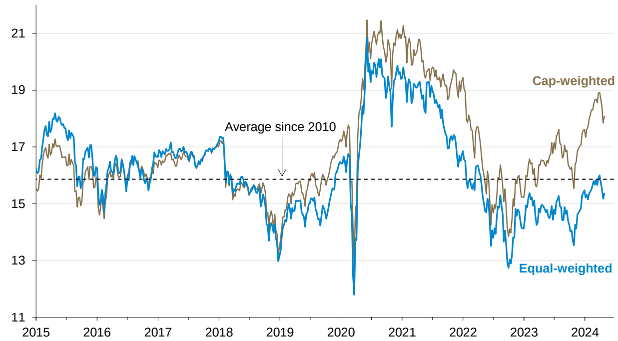
With that said, however, it is important to realize that equity markets have seen extremely narrow leadership over since last year — a small number of stocks (large US information technology-related) have accounted for the vast majority of overall gains, while performance has been much more modest elsewhere.

Accordingly, broad metrics continue to be skewed by the significant outperformance of a small number of large stocks and, therefore, not overly representative of the market.

To this point, while the price-to-earnings ratio for the market-capitalization-weighted MSCI World Index points to the global equity market being valued at levels almost one standard deviation above its average (and therefore on the expensive side of history), the equal-weighted version that projects a more level playing field remains below its norms.

CHART 38: MOVING AVERAGES

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

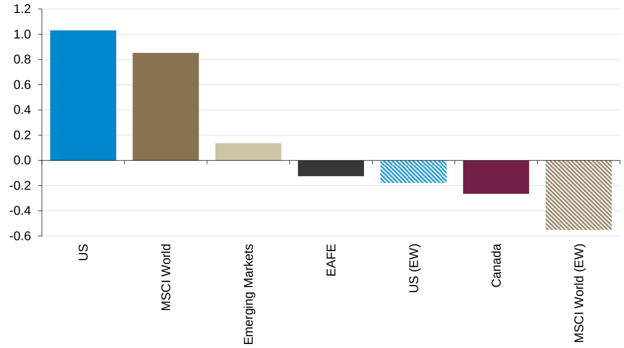


Source: Guardian Capital using data from Bloomberg to April 19, 2024

Therefore, most stocks are more reasonably valued than overall gauges would otherwise imply, indicating that there are opportunities for active and selective investors—especially for those with a more global focus—while also suggesting that there is some cushion in the event earnings expectations prove too optimistic.

CHART 39: A BIG WORLD WORTH EXPLORING

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 April 19, 2024*

Fixed investments

The baseline outlook also appears as though it could be supportive of performance in beleaguered bond markets in the future — though the asset class is likely to face continued near-term volatility until there is greater clarity on the policy rate path.

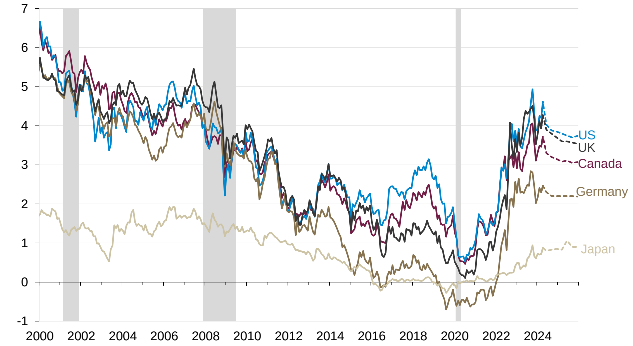
The prospect of further moderation in inflation and lower market interest rates would seem to represent a tailwind for performance.

Moreover, the yield adjustments seen so far this year have improved the balance of risks. While there is potential for further upward pressure on rates, the magnitude of moves from this point on would seem limited, barring an unexpected material break higher in inflation that spurs further action from policymakers.

Absent that, the peak in rates has likely passed and a policy-rate-driven move lower over the medium term would appear to be the path of least resistance, though the trajectory is not anticipated to be particularly sharp, with the likelihood instead being that rates will not deviate too much from recent trading ranges.

CHART 40: HOME ON THE RANGE

10-year sovereign bond yield
(percent)



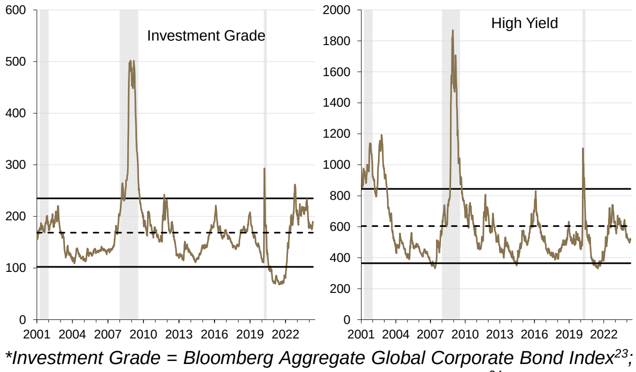
Dashed lines represent consensus forecasts as at April 19, 2024; shaded regions represent periods of US recession; source: Guardian Capital using data from Bloomberg to April 19, 2024

Accordingly, that yields remain near their highest levels in more than a decade, and are expected to trend lower, would suggest that the longer-term return prospects are better than they have been in a while despite the potential for more near-term volatility.

Corporate bonds appear particularly attractive in this context as the comparably higher coupons available on these debt issues point to higher relative returns. Also, the impact of adverse moves in rates can be muted by the positives of reduced credit risk, which could compound performance by a narrowing in spreads — high-grade credit appears to offer more scope for improvement on this front.

CHART 41: OVER THE TOP

Credit spreads over government bond yields, World*
(basis points)



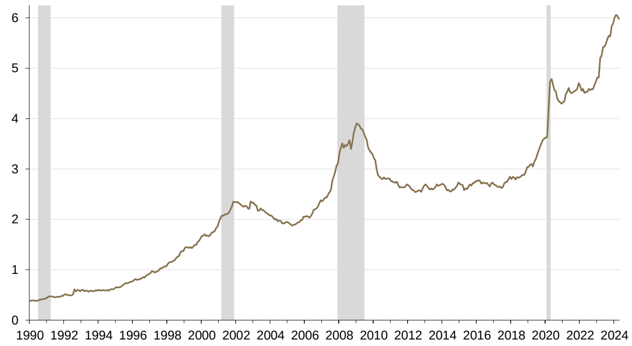
**Investment Grade = Bloomberg Aggregate Global Corporate Bond Index[23]; High Yield=Bloomberg Global High Yield Bond Index[24]; dashed lines represent series averages, solid lines are +/-1 standard deviation from the average; shaded regions represent periods of US recession; source: Guardian Capital using data from Bloomberg to April 19, 2024*

Debt with shorter maturities continue to also offer a yield advantage over those issues with a longer duration, though, the brunt of any further change in the policy path is likely to be borne here.

This segment of the bond market is also likely to be subject to growing reinvestment risk as lower short-term rates make holding cash less attractive — the potential exodus of the record-high holdings in money market funds looks to serve as a tailwind to other, longer-duration assets.

CHART 42: TAKE THE MONEY AND RUN

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 April 19, 2024

The higher yield and better longer-term return prospects with lower reinvestment risk make other fixed-income assets attractive, particularly in a balanced portfolio context, where they serve as a counterbalance for equities should the backdrop deteriorate and spur central banks into action, prompting a decoupling in the high correlation across asset classes seen in recent years.

A welcome change

After a tumultuous and highly uncertain last few years, greater clarity on the outlook easing headwinds is welcome.

With that said, while economic forecasts are tilted to the upside and confidence intervals are narrower than they have been in the last four years, that does not mean that there are no risks.

In particular, there are likely to be ongoing jolts of volatility related to developments around geopolitics and the path for policy rates, which will keep the focus on being selective and managing risk exposures.

David Onyett-Jeffries

David Onyett-Jeffries is Vice President, Economics & Multi Asset Solutions, at Guardian Capital LP (GCLP) and provides macro-economic guidance to GCLP and its affiliates—Alta Capital Management LLC and GuardCap Asset Management Limited

Market Returns as of March 31, 2024

All returns in CAD

CANADIAN EQUITIES

INDEX RETURNS (%)	1M	3M	YTD	1Y	5Y	10Y
S&P/TSX Composite	4.1	6.6	6.6	14.0	10.0	7.7
S&P/TSX 60	3.7	6.3	6.3	14.4	10.3	8.3
S&P/TSX Completion	5.9	7.9	7.9	12.0	8.6	5.7
S&P/TSX SmallCap	7.5	7.9	7.9	8.2	7.8	4.0
S&P/TSX Composite High Dividend	3.6	4.3	4.3	8.0	9.3	6.5
S&P/TSX Composite Dividend	4.1	6.6	6.6	12.9	10.3	8.2

US EQUITIES

INDEX RETURNS (%)	1M	3M	YTD	1Y	5Y	10Y
S&P 500	3.0	13.5	13.5	29.9	15.3	15.3
Dow Jones Industrial Average	2.0	8.9	8.9	22.2	11.6	14.0
NASDAQ	1.6	12.0	12.0	34.0	16.5	16.9
Russell 1000	3.0	13.2	13.2	29.9	15.1	15.0
Russell 2000	3.3	7.9	7.9	19.7	8.4	9.8
Russell 3000	3.0	12.9	12.9	29.3	14.6	14.6
Russell 1000 Growth	1.5	14.3	14.3	39.0	18.8	18.4
Russell 1000 Value	4.8	11.8	11.8	20.3	10.6	11.2

S&P/TSX SECTOR RETURNS (%)

SECTOR RETURNS (%)	1M	3M	YTD	1Y	5Y	10Y
Communication Services	-6.6	-8.5	-8.5	-14.8	1.1	5.7
Consumer Discretionary	1.0	4.5	4.5	10.8	9.7	9.3
Consumer Staples	-3.1	4.0	4.0	8.1	11.1	13.2
Energy	7.3	13.1	13.1	23.1	12.5	3.7
Financials	3.4	5.5	5.5	18.2	10.7	9.8
Health Care	13.5	18.4	18.4	38.9	-27.6	-23.3
Industrials	2.9	11.1	11.1	16.7	13.4	12.6
Information Technology	-0.3	4.8	4.8	40.2	19.0	19.9
Materials	15.4	5.8	5.8	-3.4	8.9	4.8
Real Estate	2.3	1.7	1.7	2.7	2.2	7.2
Utilities	2.6	-1.1	-1.1	-7.2	6.2	6.7

S&P 500 SECTOR RETURNS (%)

SECTOR RETURNS (%)	1M	3M	YTD	1Y	5Y	10Y
Communication Services	4.1	18.9	18.9	49.7	14.0	11.6
Consumer Discretionary	-0.1	7.7	7.7	28.7	11.8	14.9
Consumer Staples	3.3	10.3	10.3	7.2	10.2	11.5
Energy	10.3	16.7	16.7	17.7	13.2	6.9
Financials	4.5	15.4	15.4	33.5	13.1	13.3
Health Care	2.1	11.7	11.7	16.1	12.3	14.0
Industrials	4.2	13.9	13.9	26.7	13.3	13.4
Information Technology	1.7	15.6	15.6	46.0	25.7	24.5
Materials	6.3	11.8	11.8	17.6	13.6	11.5
Real Estate	1.5	2.1	2.1	9.6	5.6	N/A
Utilities	6.4	7.3	7.3	0.4	6.1	10.6

INTERNATIONAL EQUITIES

INDEX RETURNS (%)	1M	3M	YTD	1Y	5Y	10Y
MSCI World Index (Net, C$)	2.9	11.7	11.7	25.1	12.4	11.6
MSCI EAFE Index (Net, C$)	2.9	8.4	8.4	15.2	7.6	6.9
MSCI ACWI (Net, C$)	2.8	11.0	11.0	23.1	11.2	10.9
MSCI France (C$)	2.9	8.7	8.7	12.1	9.8	8.2
MSCI Germany (C$)	3.6	9.9	9.9	14.8	6.6	4.8
MSCI Japan (C$)	2.3	13.4	13.4	25.2	7.9	8.8
MSCI U.K. (C$)	4.2	5.8	5.8	10.9	5.4	5.0
S&P/IFC Investable (Emerging Markets)	1.6	4.6	4.6	10.2	3.5	6.0
MSCI EAFE Growth (Gross, C$)	2.1	9.9	9.9	13.6	8.5	8.4
MSCI EAFE Value (Gross, C$)	4.3	7.5	7.5	18.2	7.4	6.2

INTERNATIONAL EQUITIES

MSCI EAFE SECTOR RETURNS (%)	1M	3M	YTD	1Y	5Y	10Y
Communication Services	0.6	6.8	6.8	6.6	2.6	2.9
Consumer Discretionary	1.9	14.0	14.0	15.5	9.6	7.7
Consumer Staples	0.7	-0.6	-0.6	-5.9	1.4	5.1
Energy	6.8	4.9	4.9	14.5	5.2	4.8
Financials	5.1	11.4	11.4	25.8	9.0	6.3
Health Care	2.2	7.5	7.5	8.6	8.0	7.7
Industrials	2.7	10.7	10.7	23.0	9.7	8.7
Information Technology	1.4	17.3	17.3	31.1	14.6	13.3
Materials	5.1	1.5	1.5	10.2	9.3	8.0
Real Estate	6.1	4.2	4.2	13.0	-2.8	N/A
Utilities	3.9	-2.5	-2.5	2.7	4.2	5.4

CANADIAN FIXED INCOME

INDEX RETURNS (%)	1M	3M	YTD	1Y	5Y	10Y
FTSE Canada 91 Day TBill	0.4	1.2	1.2	4.8	2.0	1.4
FTSE Canada Short Term Overall Bond	0.5	0.3	0.3	3.5	1.3	1.6
FTSE Canada Mid Term Overall Bond	0.7	-1.1	-1.1	1.1	0.5	2.1
FTSE Canada Long Term Overall Bond	0.3	-3.6	-3.6	0.8	-1.4	2.4
FTSE Canada Universe Bond	0.5	-1.2	-1.2	2.1	0.3	2.0
FTSE Canada High Yield Overall Bond	1.2	3.0	3.0	11.2	4.8	5.1
FTSE Canada Real Return Bond Overall	1.5	-1.8	-1.8	0.4	0.3	1.9

CANADIAN FIXED INCOME

SECTOR RETURNS (%)	1M	3M	YTD	1Y	5Y	10Y
FTSE Canada Federal Bond	0.5	-1.2	-1.2	0.8	-0.1	1.3
FTSE Canada Provincial Bond	0.4	-2.2	-2.2	1.1	-0.4	2.2
FTSE Canada All Corporate Bond	0.5	0.1	0.1	5.5	1.7	2.8

GLOBAL FIXED INCOME

INDEX RETURNS (%)	1M	3M	YTD	1Y	5Y	10Y
FTSE World Government Bond	0.2	0.2	0.2	-0.8	-2.0	1.2

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

Market Returns as of March 31, 2024

All returns in CAD

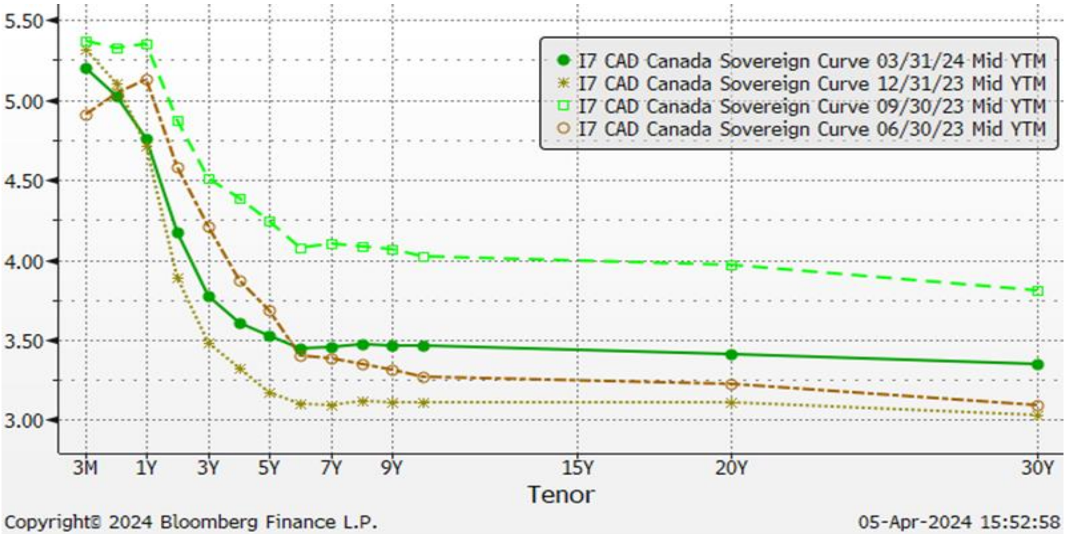
COMMODITIES

INDEX RETURNS (%)	1M	3M	YTD	1Y	5Y	10Y
Bloomberg WTI Cushing Crude Oil Spot Price	6.0	19.1	19.1	9.9	7.0	0.0
Bloomberg European Dated Brent BFOE Price	2.6	15.0	15.0	9.1	5.5	0.0
Edmonton Crude Oil Syncrude Sweet Blend FOB Spot	10.9	40.8	40.8	9.1	8.4	0.2
S&P GSCI Nat Gas Index Spot	-5.4	-28.0	-28.0	-20.4	-7.7	-6.8
S&P GSCI Copper Index Spot	4.1	6.2	6.2	-1.9	6.6	5.0
S&P GSCI Gold Index Spot	8.7	10.9	10.9	12.7	11.8	7.9

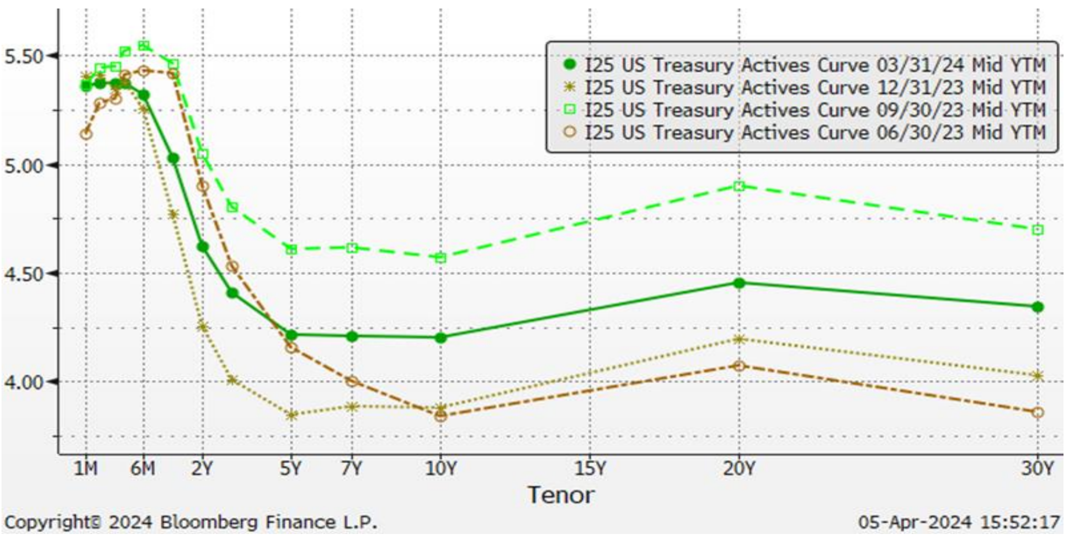
CURRENCY

% CHANGE	1M	3M	YTD	1Y	5Y	10Y
CAD/USD	-0.2	2.6	2.6	0.0	0.3	2.0
CAD/Yen	-1.3	-4.4	-4.4	-12.1	-5.8	-1.8
CAD/GBP	-0.4	1.7	1.7	2.2	-0.4	-0.7
CAD/Euro	-0.4	0.3	0.3	-0.6	-0.5	-0.4

GOVERNMENT OF CANADA YIELD CURVE



U.S. TREASURY YIELD CURVE



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

[1] 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.
[2] 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.
[3] Aggregate volume of merchandise trade leaving a country (exports) and entering a country (imports) for 81 countries worldwide covering approximately 99% of world trade.
[4] 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
5 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.
[6] 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.
[7] The consumer and business confidence indicators provide an indication of future developments of households' and businesses spending and investment based on opinion surveys. An indicator above 100 signals a boost in confidence towards the future economic situation; values below 100 indicate a pessimistic attitude towards future developments in the economy.
[8] Percent of balance that 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.
[9] Federal Reserve Bank of New York, Quarterly report on household debt and credit, 2023:Q4, https://www.newyorkfed.org/medialibrary/interactives/householdcredit/data/pdf/HHDC_2023Q4
[10] The Federal Reserve Bank of New York Global Supply Chain Pressure Index is a measure of global supply chain conditions.
[11] 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.
[12] 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.
[13] CME Group, CME FedWatch Tool, *Target rate probabilities for 1 May 2024 Fed Meeting*, April 30, 2024, https://www.cmegroup.com/markets/interest-rates/cme-fedwatch-tool.html
[14] The "break-even" inflation rate is the inflation rate required to equalize nominal and real interest rates, and is calculated by taking the difference between yields on nominal and "inflation-linked" (or "real return") sovereign bonds.
[15] 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).
[16] 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.
[17] 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.
[18] 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.
[19] The Goldman Sachs Financial Conditions Index is a weighted average of short-term interest rates, long-term interest rates, the trade-weighted dollar, an index of credit spreads, and the ratio of equity prices to the 10-year average of earnings per share.
[20] International Monetary Fund, World Economic Outlook: steady but slow: resilience amid divergence; April 16, 2024, https://www.imf.org/en/Publications/WEO/Issues/2024/04/16/world-economic-outlook-april-2024
[21] Organisation for Economic Co-operation and Development, Global Debt Report 2024: Bond markets in a high-debt environment; March 7, 2024, https://www.oecd-ilibrary.org/sites/91844ea2-en/index.html?itemId=/content/publication/91844ea2-en
[22] The MSCI World Index captures mid- and large-cap representation across 23 developed market countries.
[23] The Bloomberg Barclays Global Aggregate Bond Index is a flagship measure of global investment grade debt from twenty-four local currency markets.
[24] The Bloomberg Global High Yield Index is a multi-currency flagship measure of the global high-yield debt market. The index represents the union of the US High Yield, the Pan-European High Yield, and Emerging Markets (EM) Hard Currency High Yield Indices.

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May 2024