

# Economic Outlook

Summer 2023

## SUMMARY

- There is an old investing adage that bull markets climb the wall of worry while bear markets slide down the slope of hope.
- That is to say, financial markets tend to sustainably thrive in expansions when there is a healthy dose of skepticism among investors, with abundant focus being placed on the numerous potential downside risks that could knock the rally off track.
- In these environments, enthusiasm is kept in check, preventing valuations from becoming untethered from fundamentals and permitting upward momentum to be maintained as “worst cases” do not come to fruition and the economy trudges forward.
- Financial market history is littered with “next big crises” that ultimately do not materialize — the bricks in the wall of worry — and while the onset of these events may cause temporary disruptions and volatility, they more often than not prove fleeting as the outcome is rarely as bad as feared and markets resume their climb.
- While it is undeniably the case that the general mood in the market is less downbeat than it has been in a while, significant concerns over the outlook remain that are restraining sentiment. Add in the tightening of financial conditions and there are scant indications of excesses that look to trigger an imminent widespread shock to the system.
- Instead, the foundations that have underpinned growth since the onset of the pandemic largely remain intact while the headwind of higher cost pressures is increasingly ebbing — which stands to ease pressure on policymakers to take interest rates higher — setting up the global economy to continue to surprise those still waiting for the other shoe to drop.
- From a market perspective, that suggests growth momentum can continue to lift risk assets that are not dearly priced over the wall of worry in the months ahead.

## The watchers on the wall

There is an old investing adage that bull markets climb the wall of worry while bear markets slide down the slope of hope.

That is to say, financial markets tend to sustainably thrive in expansions when there is a healthy dose of skepticism among investors, with abundant focus being placed on the numerous potential downside risks that could knock the rally off track.

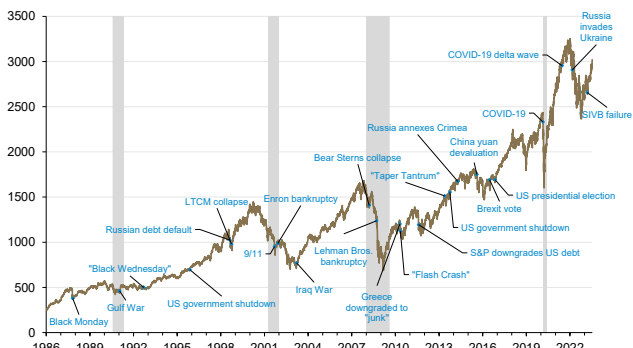
In these environments, enthusiasm is kept in check, preventing valuations from becoming untethered from fundamentals and permitting upward momentum to be maintained as “worst cases” do not come to fruition and the economy trudges forward.

Financial market history is filled with “next big crises” that ultimately do not materialize — the bricks in the wall of worry — and while these events may cause temporary disruptions and volatility, they more often than not prove fleeting as the outcome is rarely as bad as feared and markets resume their climb.

### CHART 1: CLIMBING THE WALL OF WORRY

#### MSCI World Index<sup>1</sup>

(index; December 31, 1969=100)



Shaded regions represent periods of US recession; source: Guardian Capital based on data from Bloomberg to July 14, 2023

The bigger problem for markets (aside from an outright economic downturn) is when investors become uniformly optimistic. In these cases, expectations become aggressively positive, “fear of missing out” runs rampant, and asset prices detach from their underlying foundations.

Unfortunately, hope is not a particularly good investment strategy. When elevated expectations are not met (even if outcomes are still positive in an absolute sense), that can lead to an abrupt and painful revaluation — markets slide down that slippery slope of hope.

With this in mind, the question right now is whether markets, which have seen equities rally more than 20% from last year’s lows, are set to take another step up the wall or are at risk of losing traction and beginning a slide.

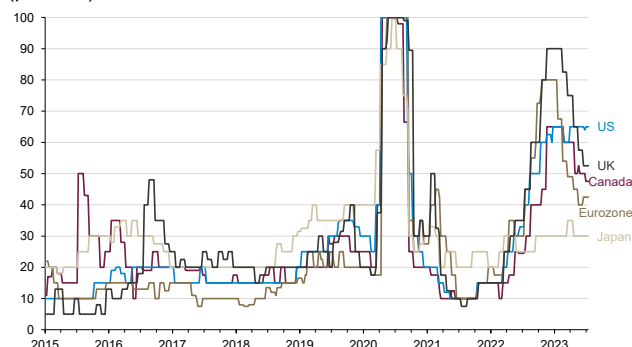
### Nattering nabobs of negativism

While it is undeniably the case that the general mood in the market is less downbeat than it has been in a while, sentiment continues to be restrained by significant concerns over the outlook.

Despite the global economy’s persistent resiliency and success in overcoming the numerous obstacles laid in its path over the last three years, the consensus among forecasters remains that a recession is the most likely outcome for the bulk of Developed Markets (DM) over the next year — the Eurozone, which already endured its share of hardships, and Japan serving as the exceptions — though assumed odds are not negligible.

### CHART 2: RECESSION RISKS REMAIN

#### Consensus expected probability of recession in 12 months (percent)

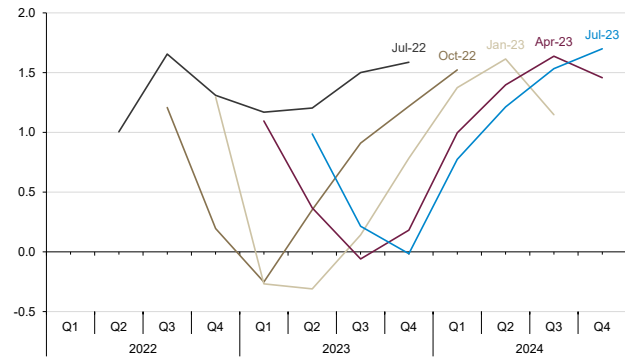


Source: Guardian Capital based on data from Bloomberg to July 14, 2023

The continuous upgrades to the near-term outlook over the last nine months that have been necessitated by persistently stronger-than-anticipated activity have just been treated as delaying an imminent downturn. The weakness has just been kicked out to the end of this year.

### CHART 3: KICKING THE CAN DOWN THE ROAD

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



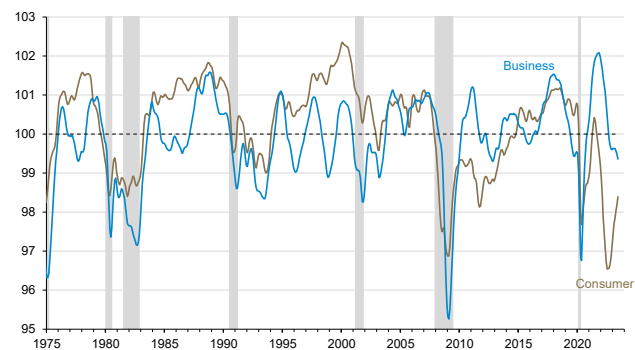
Series labels represent the date of consensus forecast, Jul-23 is as at July 14, 2023; G7=Canada, France, Germany, Italy, Japan, UK and US; source: Guardian Capital based on data from Bloomberg

These doubts about the health of the global economy and the durability of the current expansion are being echoed in sentiment surveys.

Measures of consumer and business confidence across DM show scant signs of elation. The aggregated gauges of sentiment for the 38-member countries of the Organisation for Economic Co-operation and Development<sup>2</sup> (OECD) are depressed and at levels consistent with past recessions.

### CHART 4: FEELING DEPRESSED

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



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

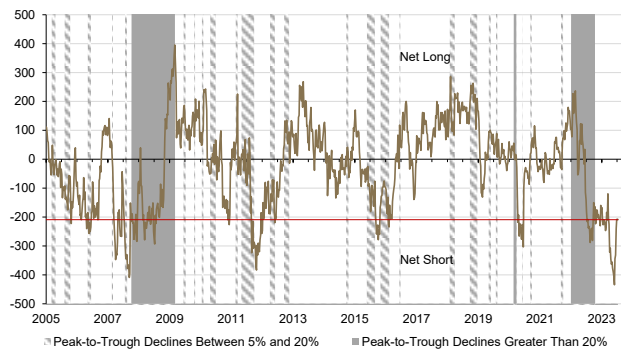
Similarly, despite the improvement in equity performance over the last nine months, enthusiasm in markets is limited. Surveys of investors have seen the share of “bears” retreat from last year’s highs but move more towards the “neutral” category rather than straight into bullishness.

Further, gauges of positioning point toward continued caution among the professional investor class, echoing the view of forecasters.

Recent fund manager surveys show risk appetites remain constrained, and cash balances remain elevated. Data from the US Commodity Futures Trading Commission show that traders’ speculative futures positions on the S&P 500 Index<sup>3</sup> are still more than one standard deviation skewed toward the shorts (i.e. bets that the stock market will fall).

### CHART 5: STILL NO SHORTAGE OF SHORTS

**Net speculative position on the S&P 500**  
(thousands of futures contracts; <0 denotes net short)



Source: Guardian Capital based on data from Bloomberg to July 14, 2023

### Waiting for the other shoe to drop

The main source for this looming sense of dread (driving the broadly-held view that a downturn is coming) is monetary policy.

The long and variable lags between central bank decisions and their impact on the real economy make calibrating the broad-reaching policy difficult.

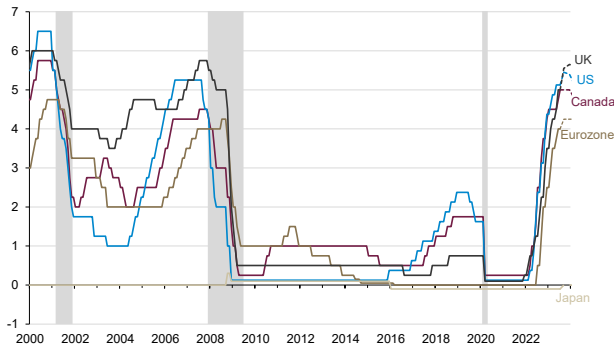
Accordingly, policymakers have poor track records for controlling inflation without choking off broader economic growth. Almost every recession in the post-World War II era has the fingerprints of monetary policy all over it (the exogenous shock of the pandemic being one of the few exceptions).

Combine that with the fact that this tightening cycle has seen policy rates rise faster and further than any in recent history and with an unparalleled unanimity across the globe, and the assumption is that something ultimately will have to give.

That is especially the case, given expectations that hiking may not yet be over.

## CHART 6: HIGHER, FURTHER, FASTER

Central bank policy interest rates  
(percent)



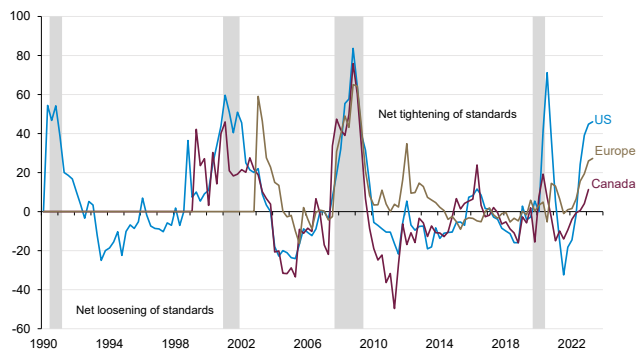
Shaded regions represent periods of US recession; dashed lines represent Bloomberg consensus forecasts as at July 14, 2023; source: Guardian Capital based on data from Bloomberg to June 2023

The higher costs of carrying debt serve to restrain demand for credit, the lifeblood of the economy. At the same time, surveys indicate its supply is being constrained as lenders raise their standards for qualifying for loans in the name of protecting their books from the assumed looming downturn — the flare-up of financial system stress earlier this year also exacerbated concerns on this front.

Bank surveys in the US, Europe and Canada all point to a 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 based on data from the US Federal Reserve, European Central Bank and Bank of Canada to Q2 2023

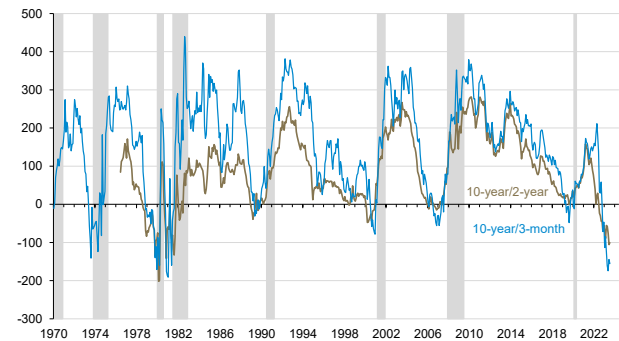
Echoing this tightening of financial conditions, the yield curve — the gap between long-term and short-term market interest rates — remains deeply inverted or in negative territory.

Given that banks traditionally borrow in the short term to finance longer-term loans, the curve is

treated as a leading indicator of credit availability. A yield curve inversion has historically been a harbinger of a recession within the next two years (it first turned negative a year ago).

## CHART 8: CURVE YOUR ENTHUSIASM

US Treasury yield curves  
(basis points)

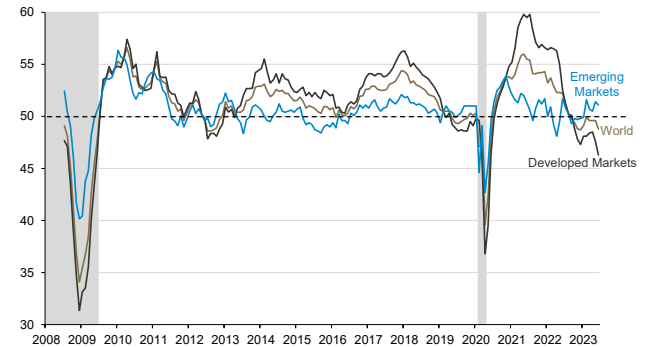


Shaded region represents periods of US recession; source: Guardian Capital based on data from Bloomberg to July 14, 2023

Furthermore, the global Manufacturing Purchasing Managers Index (PMI)<sup>4</sup> has plunged into contractionary territory. This largely reflects weakness in DM (namely the US and Eurozone) factory sector sentiment; however, less than a quarter of all reporting countries have indexes north of the “50” growth break-even threshold, a less-than-favourable omen for the broader outlook.

## CHART 9: MANUFACTURING MELTING DOWN

Manufacturing purchasing managers' index  
(diffusion index; >50 denotes expansion)

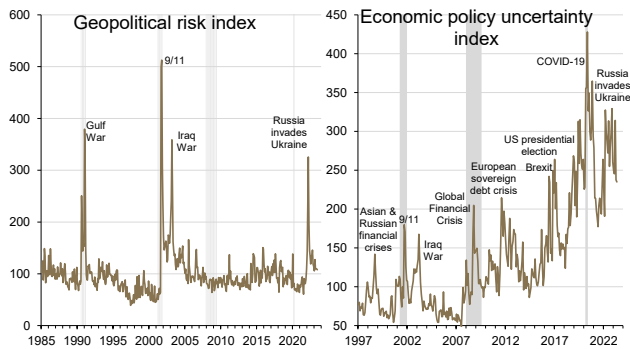


Shaded regions represent periods of US recession; source: Guardian Capital based on data from the Bloomberg to June 2023

Government policy-related risks — either domestically, with widening divides between political opponents within the same legislature, or geopolitically, as the war between Russia and Ukraine continues while tensions between the US and China simmer — also remain elevated.

## CHART 10: POLITICALLY MINDED

**Geopolitical risk index<sup>5</sup> & Policy uncertainty index<sup>6</sup>, World** (index; pre-2019 average=100) (index; pre-2015 average=100)



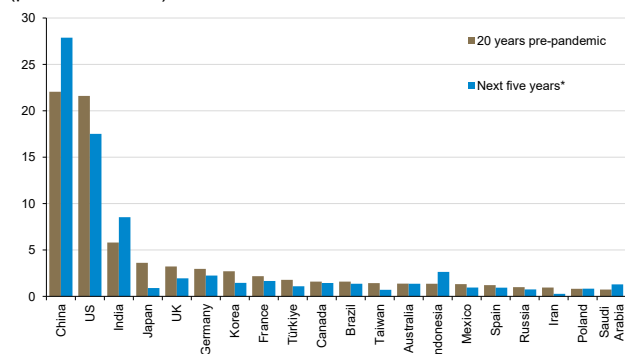
Shaded regions represent periods of US recession; source: Guardian Capital based on data from PolicyUncertainty.com to June 2023

### Cracks in China

China also warrants a bit more focus, given its increasingly significant role in the world. The Middle Kingdom was the biggest driver of global growth over the two decades before the pandemic, and it is expected to be a bigger contributor in the years ahead as DM growth downshifts against more structural headwinds (demographics in particular).

## CHART 11: GAINING WEIGHT

**Contribution to global GDP growth** (percent of total)



\*Based on forecasts from the International Monetary Fund's April 2023 World Economic Outlook<sup>7</sup>; source: Guardian Capital based on data from Bloomberg and the International Monetary Fund

The abrupt shift by policymakers in Beijing away from the long-held “COVID zero” policy late last year drove a rapid turn in economic momentum as public health restrictions were scaled back and the economy started to reopen in earnest.

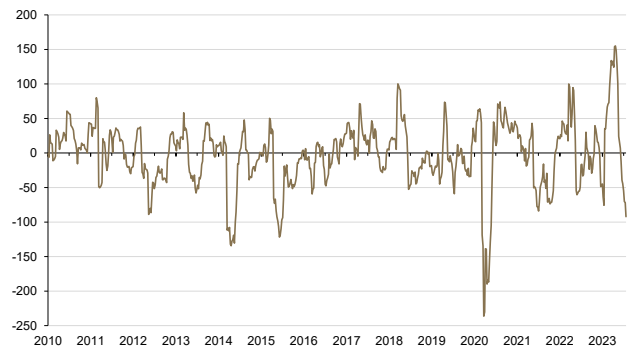
Given the boost the recovery provided to overall activity elsewhere, expectations were high that China would see a sustained acceleration this year that would help offset a moderation among other

economies that were further along in their post-pandemic strategies.

In the event, however, the bounce-back has underwhelmed after an initial boom, especially over the last few months, with the data flow coming in materially below expectations.

## CHART 12: DATA DISAPPOINTMENTS

**Economic surprise index<sup>8</sup>, China** (diffusion index; >0 denotes “better than expected” dataflow)



Source: Guardian Capital based on data from Bloomberg to July 14, 2023

Consumer spending has been relatively lackluster following a surge to start the year, with households opting to build rather than draw down savings against ongoing concerns over the domestic property market — this and the government’s regulatory crackdowns have tempered business appetite for spending as well.

## CHART 13: MONEY IN, NOT OUT OF, THE BANK

**New household deposits & loans<sup>9</sup>, China** (trillions of renminbi, 12-month rolling total)

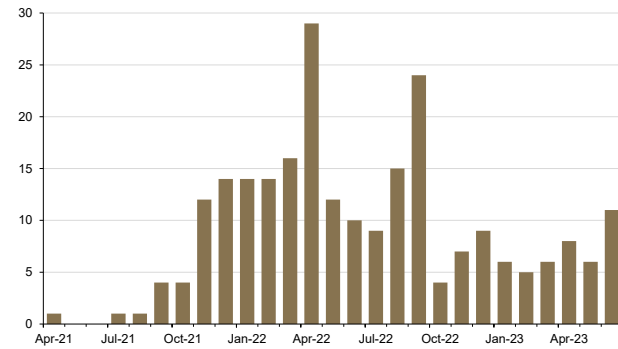


Shaded regions represent periods of US recession; source: Guardian Capital based on data from the Peoples Bank of China and Bloomberg to June 30, 2023

The government has responded by introducing an increasing slate of initiatives to give the domestic economy a shot in the arm while also trying to support the real estate sector.

## CHART 14: STIMULATING CONVERSATIONS

Government stimulus measures introduced, China (number)



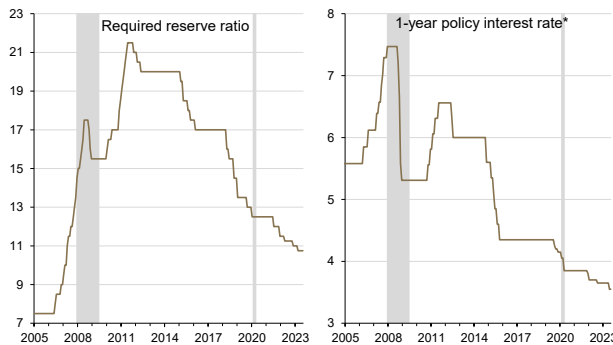
Source: Guardian Capital based on data from Piper Sandler<sup>10</sup> to June 30, 2023

China's central bank also continues to buck the tightening trend of its international peers.

The People's Bank of China (PBOC) has been steadily easing, with the required reserve ratio (which determines how much banks can lend relative to deposits) and interest rates both being reduced in an effort to inject more liquidity into the financial system and economy.

## CHART 15: GOING AGAINST THE GRAIN

Reserve requirement ratio & policy interest rate\*, China (percent)



\*China's policy interest rate is 1-year prime loan rate since August 20, 2019; prior to that, 1-year Official lending rate; shaded regions represent periods of US recession; source: Guardian Capital based on data from Bloomberg and the Bank for International Settlements<sup>11</sup> to July 14, 2023

So far, these initiatives have shown little results — clearly a concerning development that raises the prospect that a desired pickup in activity in China may not have enough verve to counterbalance an anticipated moderation in DM economies that are further along in their recoveries.

## Other than that, Mrs. Lincoln...

To borrow from a pop icon currently doing her part to stimulate the global economy with her massive global tour, one could build a castle with all the bricks being thrown at the moment.

That said, there are still reasons to believe that the wall of worry being built can continue to be scaled in the months ahead.

For starters, the fact that everybody is keenly aware of the risks to the outlook and proceeding with caution arguably lowers those risks and the potential size of any fallout. The unexpected and inherently unpredictable shocks are the ones that tend to cause the most damage.

Secondly, aside from unexpected shocks (such as war, natural disasters, or a pandemic), economic downturns are the product of systemic imbalances.

These excesses arise from misallocations of capital during periods of ample liquidity and can persist until there is a reason for positions to unwind. Typically, it is a central-bank-induced jump in costs of capital that makes overextended financial positions untenable, with the larger the imbalance, the greater the unwind and resultant negative spillovers.

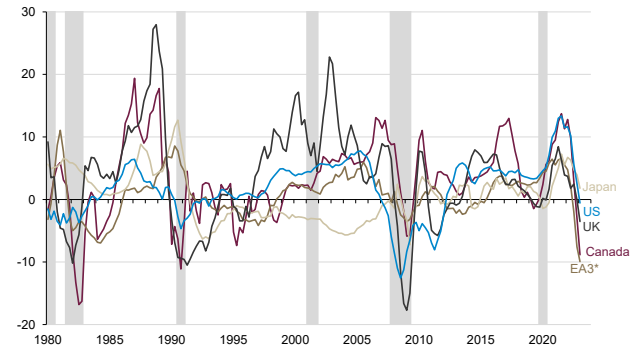
The persistent uncertainty over the economic outlook over the last three years has undoubtedly factored into preventing significant financial imbalances from developing simply because the constraints on activity limited the ability and willingness of households and businesses in the aggregate to overextend themselves.

This appears to be a reason behind the fairly limited fallout so far from the most aggressive tightening cycle in decades. There absolutely were pockets of excess that have come under pressure (for example, the wide range of cryptocurrency-related entities and the institutions that serviced them), but no indications of the misallocations of capital that suggest a destabilization lies ahead.

Take real estate, for example. Property markets are highly sensitive to interest rates, and the surge in mortgage costs over the last year has corresponded with a plunge in housing activity that has driven sharp declines in home prices worldwide.

## CHART 16: SITTING IN THE BASEMENT

**Real\* house prices**  
(year-over-year percent change)

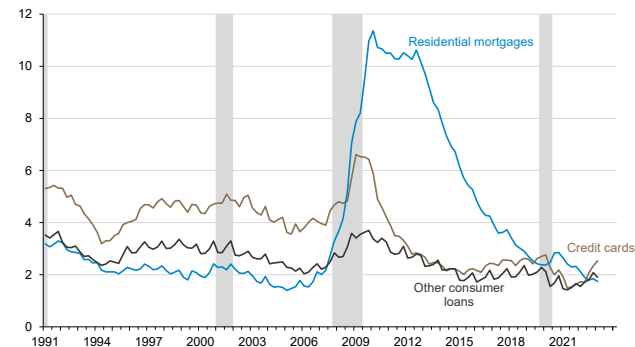


\*Real house price is the ratio of the nominal house price to the consumers' expenditure deflator in each country; aggregates are GDP-weighted average; \*\*EA3=France, Germany & Italy; source: Guardian Capital based on data from the OECD to Q1 2023

The pullback, however, has been downright orderly, especially in comparison to the freefall in the lead-up to the financial crisis 15 years ago. In contrast to that period, there are no indications yet that households are struggling to make payments. Loan delinquencies remain benign, though they are inching higher for credit cards.

## CHART 17: STAYING ON TOP OF PAYMENTS

**Delinquent\* consumer loans at commercial banks<sup>12</sup>, US**  
(percent of outstanding loan balances)



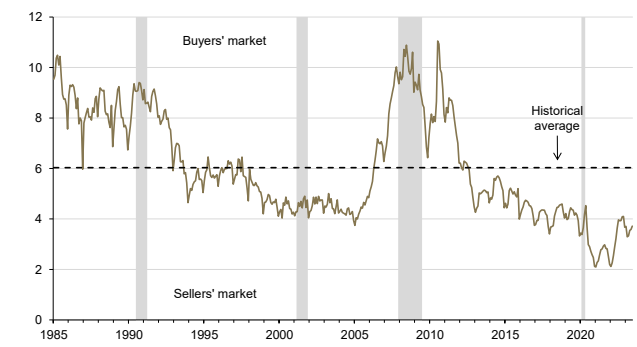
\*Delinquent loans and leases are those past due thirty days or more; shaded regions represent periods of US recession; source: Guardian Capital based on data from the US Federal Reserve Board to Q1 2023

This may well change in the coming years as ultra-low interest rate pandemic-era mortgages come up for renewal at higher costs. As of yet, however, there are limited signs of an impending wave of financially strapped homeowners being forced to put their homes on the market.

In fact, a lack of supply is playing a large role in constraining housing activity right now. This is putting a floor in the market and setting up the potential for a fairly notable turnaround should buyers be coaxed back in by improved affordability.

## CHART 18: NOT FOR SALE

**Supply of New & Existing Single-Family Homes for Sale, US**  
(months to clear inventory at current sales rates)



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

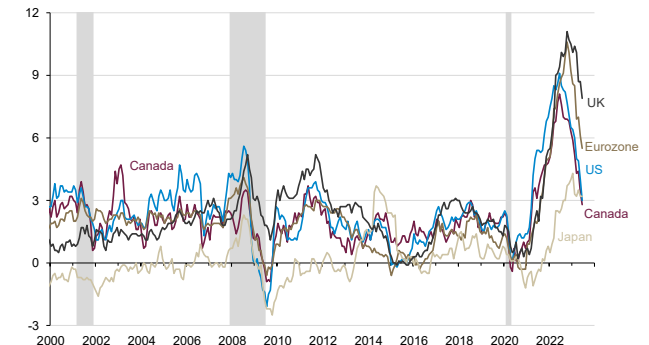
On that score, the prospect of further aggressive increases in interest rates looks to be limited as the major driver of policy concern appears to be abating.

High inflation, particularly on necessities such as food and energy, is a big headwind for activity as it means that consumers have to spend more on less.

And while rates of inflation remain above central banks' comfort levels, the moderating trends appear likely to be sustained in the months ahead.

## CHART 19: THE PEAK IS IN THE PAST

**Consumer price index<sup>13</sup>**  
(year-over-year percent change)



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

Looking at overall price gauges, the reversal of last year's Russian-invasion-driven surge in agricultural and energy commodities has played a significant role in bringing inflation rates down to earth.

Commodity prices in the aggregate are 20% below year-ago levels, and barring a material shift higher in the coming months — which is not a particularly high probability absent some sort of shock given the negligible impact on pricing from OPEC's recent

production cuts — will continue to exert downward pressure on inflation rates in the coming months.

### CHART 20: NO LONGER A HOT COMMODITY

**S&P/Goldman Sachs spot commodity price index<sup>14</sup>**  
(year-over-year percent change)



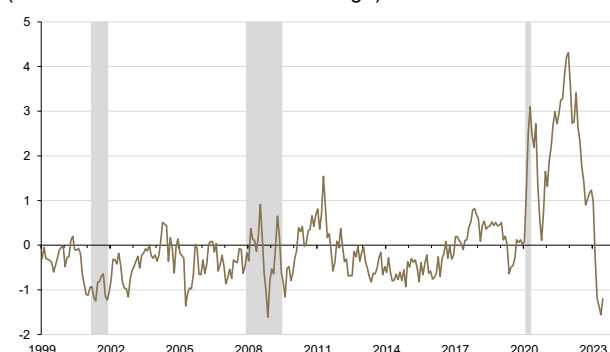
Shaded regions represent periods of US recession; source: Guardian Capital based on data from Bloomberg to June 2023

As well, while they may have proven to be less “transitory” than assumed, the pandemic-driven upward pressures on prices throughout supply chains are fading quickly.

Port congestion has been alleviated, order backlogs caught up, inventories replenished, and transportation and shipping costs have come back down to earth. Aggregated gauges of supply-side pressures have returned to pre-pandemic levels.

### CHART 21: PRESSURE RELEASE

**Supply chain pressure index<sup>15</sup>, world**  
(standard deviations from the average)

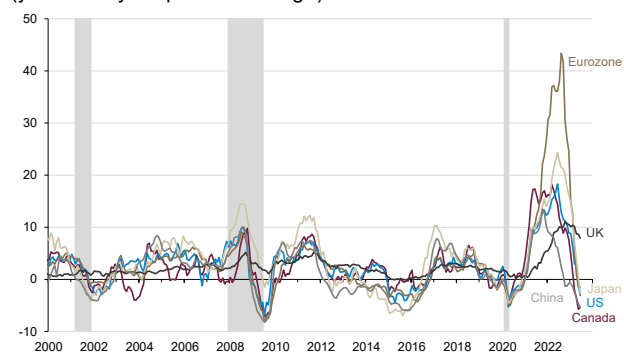


Shaded regions represent periods of US recession; source: Guardian Capital based on data from New York Federal Reserve Bank to June 2023

Against these positive developments, indicators of price pressures in the production pipeline have plunged worldwide — China, which is often the first step in the value chain, has seen producer prices decline particularly sharply relative to last year.

### CHART 22: PLUNGING PIPELINE PRICE PRESSURE

**Producer price index<sup>16</sup>**  
(year-over-year percent change)

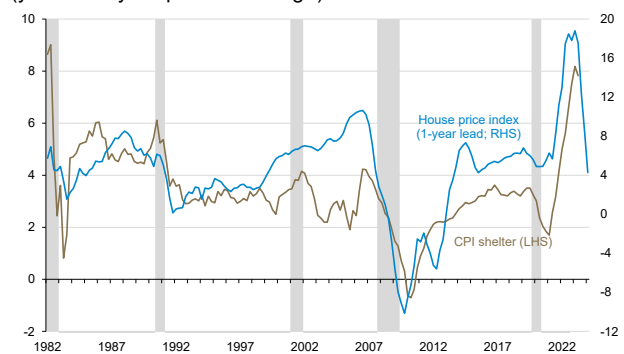


Shaded regions represent periods of US recession; source: Guardian Capital based on data from Bloomberg to June 2023

Add in the housing price drop — which only gets reflected in consumer price metrics with a sizable lag — and underlying inflation looks like they could well continue to moderate to more palatable levels by the end of the year.

### CHART 23: TAKING SHELTER

**CPI shelter & national house prices<sup>17</sup>, US**  
(year-over-year percent change)



Shaded regions represent periods of US recession; source: Guardian Capital based on data from Bloomberg and the OECD to Q2 2023

That said, any added renewed verve in services and housing could have the impact of providing some offset to this desired progress — while artificial intelligence-driven productivity enhancement could provide a counterbalance.

### Do as I do, not as I say?

Finally, the fact remains that households remain on solid footing in the aggregate, suggesting that the key foundations that have supported growth since the onset of the pandemic remain intact.

And while pessimism over the prospects for the future tends to create waves in the here and now,



creating something of a self-fulfilling prophecy, there are few indications that a hit from the confidence channels is actually materializing as yet.

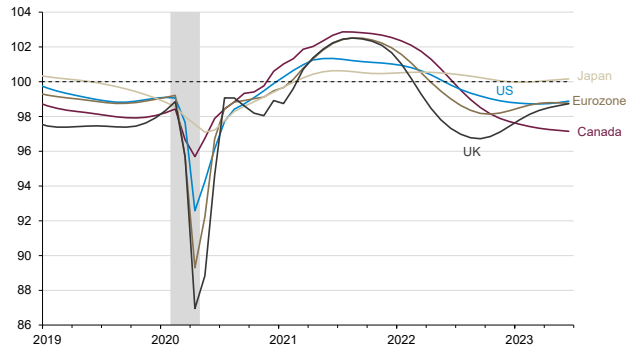
Instead, there appears to be a gap between what people are saying and what they are actually doing.

Consumers are the most important cog in the global economic engine, and, despite a series of headwinds that have clearly contributed to the dour sentiment, they continue to drive the underlying growth.

As a result, leading economic indicators are generally indicating that momentum has inflected higher since the fall of 2022 (albeit with growth still at rates below longer-term trends).

### CHART 24: FOLLOW THE LEADER

**Composite leading economic indicator<sup>18</sup>**  
(index; trend-growth = 100)



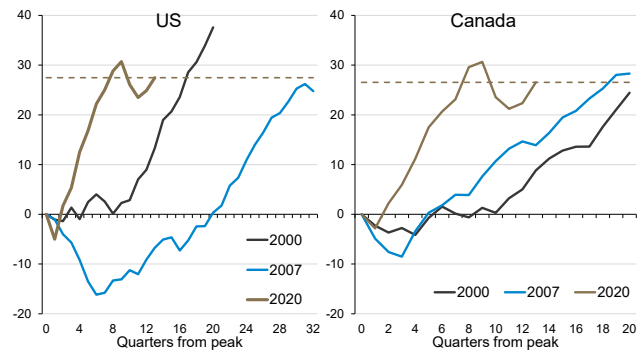
Shaded region represents a period of US recession; source: Guardian Capital based on data from the OECD and Bloomberg to June 2023

The main reason for this is that household finances remain in good shape.

The recovery in net worth from the early pandemic hit was historically quick, and even with last year's weakness in financial markets and the slump in housing prices, net wealth is near all-time highs.

### CHART 25: FOR WHAT IT'S WORTH

**Household net worth, US & Canada**  
(percent change from pre-recession/crisis peak)



2000 peak = Q3 2000; 2007 = Q3 2007; 2020 = Q4 2019; source: Guardian Capital based on data from the US Federal Reserve Board and Statistics Canada to Q1 2023

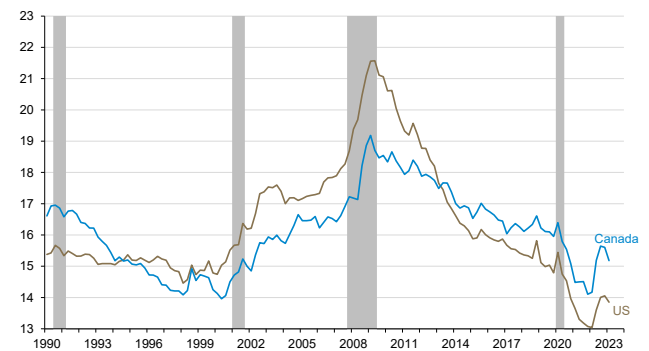
Further, in sharp contrast to the debt-fueled run-up in asset values at the turn of the millennium, credit has played a much smaller role in the accumulation of wealth over the last decade against a relatively restrained availability of credit and an aversion to borrowing even when rates were at their lows.

By some measures, consumers now are the least debt-reliant in generations — one reason why the impact of the tightening financial conditions has not carried the anticipated degree of verve this cycle.

The household debt-to-asset ratio — a gauge of solvency — is at levels that are not ringing any alarm bells, especially in the US, where it sits at levels last seen in the early 1980s.

### CHART 26: LOW LEVERAGE SITUATION

**Household debt-to-asset ratio\***  
(percent)

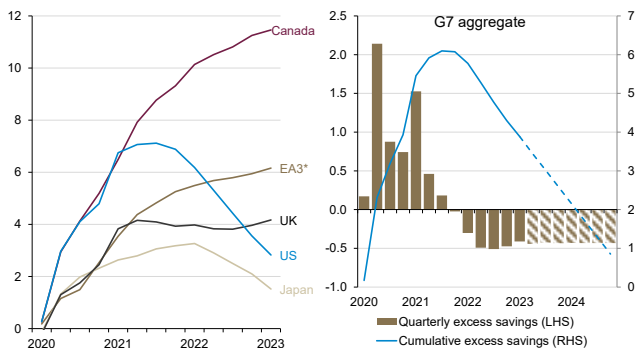


\*Data made comparable following [Statistics Canada's guidelines<sup>19</sup>](#); shaded regions represent periods of US recession; source: Guardian Capital based on data from the US Federal Reserve Board and Statistics Canada to Q1 2023

Add to that the fact that consumers continue to sit on a pandemic-driven excess of savings — the US is the only G7 economy that has seen much of a drawdown to date, supporting better relative performance, but the well has not run dry.

### CHART 27: PLENTY OF CASH ON HAND

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



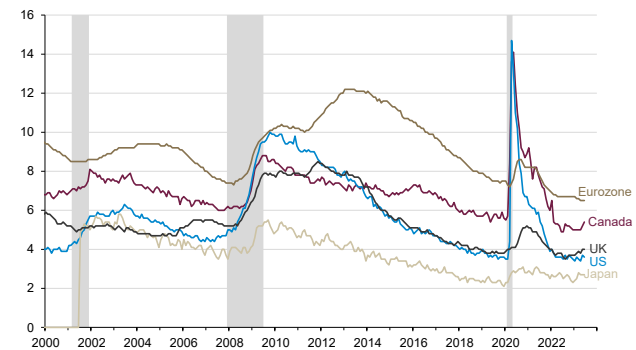
\*EA3=France, Germany & Italy; \*\*personal savings in excess of 1999 to 2019 trends; dashed line represents the impact of continued spending at average recent trend rates; source: Guardian Capital based on data from the OECD, IMF and Bloomberg to Q1 2023

This solid underpinning of household finances has set off a virtuous cycle as demand has spurred production that has kept businesses scrounging for bodies to help fill shifts.

As it stands, unemployment rates worldwide are either at or just a hair above historic lows.

### CHART 28: HELP WANTED

Unemployment rates (percent)



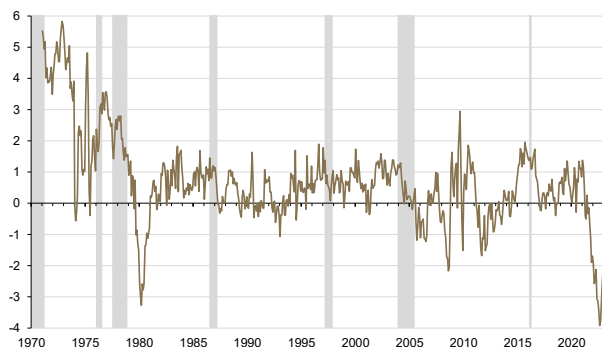
Shaded regions represent periods of US recession; source: Guardian Capital based on data from Bloomberg to June 2023

The strong demand for labour is placing upward pressure on wages, which, combined with the recent easing of price pressures, has given a lift to household purchasing power. Inflation-adjusted average hourly wage rates across the G7 are gaining ground — though they are still down year-

over-year, tempering concerns of an imminent “wage-price” inflationary spiral.

### CHART 29: INFLATION CUTTING PAY

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



Shaded regions represent periods of US recession; source: based on data from the OECD and Bloomberg to May 2023

### Adjusting to trends

Taken together, the resiliency of consumers despite concerns is not that big of a surprise.

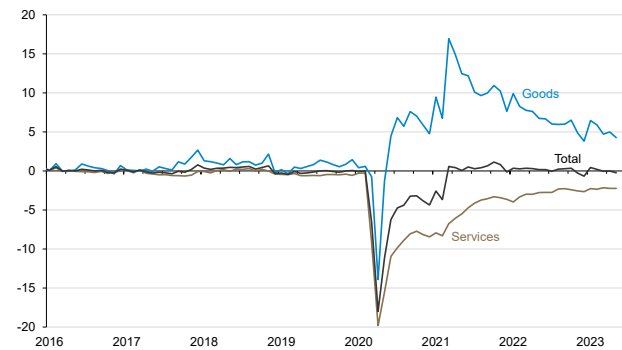
Something that also should not come as a surprise is that manufacturing is coming under pressure after showing historic strength over the last two years.

The pandemic caused a drastic change in consumer spending habits, with many services — which typically accounted for two-thirds of the average household budget across DM — becoming inaccessible due to public health restrictions.

Overall spending growth, however, quickly snapped back to trend on a wave of demand for goods — and even with this, spending could not keep pace with the above-trend income gains that were buoyed by unprecedented government stimulus efforts, which resulted in those “excess” savings caches.

### CHART 30: COUNTERVAILING FORCES

**Real personal consumption expenditure<sup>20</sup>, US**  
(percent difference from pre-pandemic trends\*)



\*Actual spending volumes relative to trends based on average growth for five years prior to March 2020; source: Guardian Capital based on data from the Bureau of Economic Analysis and Bloomberg to May 2023

The spending on goods in part reflected previously unthought-of purchases — the closure of fitness centers spurred the construction of many home gyms, for example — but also simply brought forward expenditures that were in the plans.

In other words, that strength was borrowing from future spending and did not represent a new trend.

As the services side of the economy has re-opened and life has returned to something more akin to pre-pandemic days, spending is reverting to prior service-centric trends.

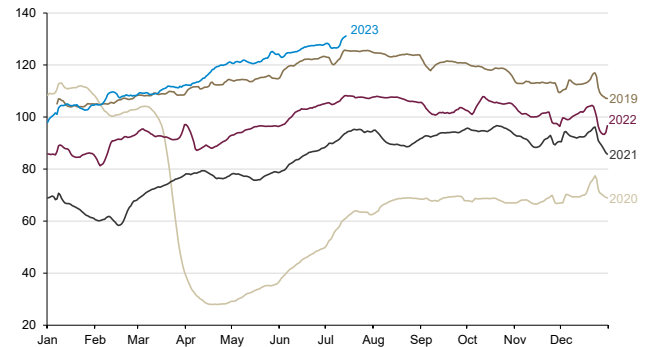
So, softening in retail sales — which skew heavily toward goods over services — is not necessarily a sign that consumers are getting more cautious as much as it reflects this shift back to trends and the impact of earlier accelerated purchases.

Other data suggest that households are continuing to spend freely. Perhaps the best example is travel & tourism, which are among the most discretionary of discretionary expenditures.

Commercial air traffic has set records over the last two months as people take to the skies to seek out experiences rather than tangible goods — and the strong US dollar has made the prospect even more attractive to globally-important American consumers.

### CHART 31: NOT SO CLEAR SKIES

**Commercial\* flight tracked by FlightRadar24 per day, World**  
(thousands, seven-day moving average)

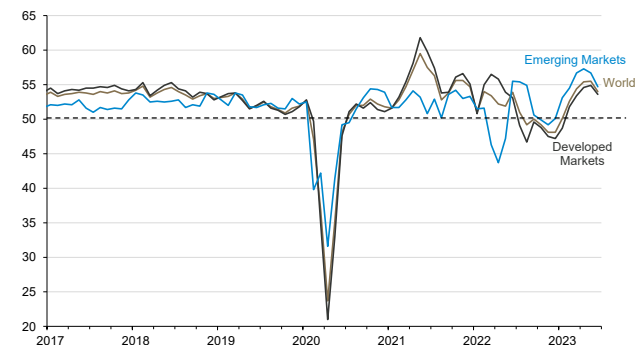


\*Commercial passenger flights, cargo flights, charter flights and some business jet flights; source: Guardian Capital based on data from FlightRadar24 and Bloomberg to July 14, 2023

Developed Markets are overwhelmingly skewed toward the service sector (and EM increasingly so), so while the PMI for this much larger segment of the economy has moderated from last year's reopening-driven surge, that it remains firmly in expansionary territory and above pre-pandemic averages does not corroborate the view that a downturn is imminent.

### CHART 32: CAN I BE OF SERVICE?

**Services purchasing managers' index<sup>21</sup>**  
(diffusion index; >50 denotes expansion)



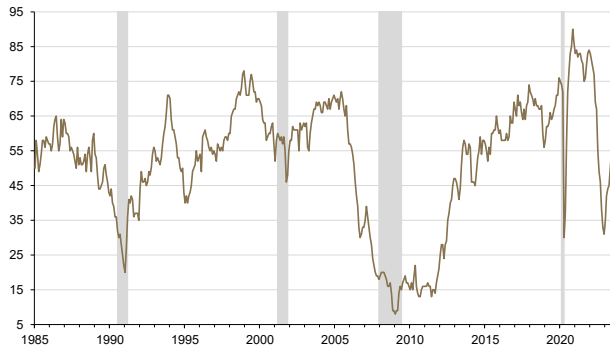
Source: Guardian Capital based on data from Bloomberg to June 2023

As well in another pro-cyclical development, there are growing signs that real estate is finding its footing.

A raft of indicators points to a revival of demand through the traditionally busy spring and summer selling seasons which is pulling homebuilders into action — the National Association of Home Builders' gauge of housing markets in the US has now increased for seven months running.

### CHART 33: HOUSING MOMENTUM REBUILDING

National Association of Home Builders housing market index<sup>22</sup>  
(index; all "good" = 100)



Shaded regions represent periods of US recession source: Guardian Capital based on data Bloomberg to June 2023

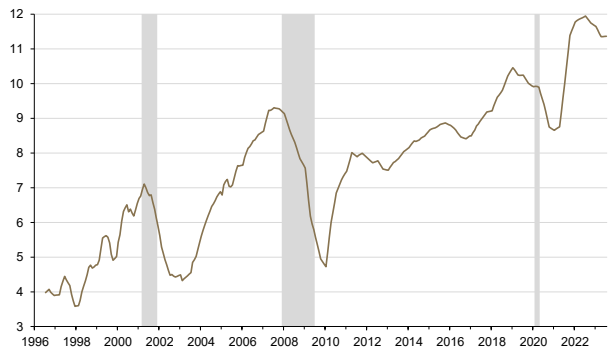
#### Taking care of business

The underlying health of the consumer has been a clear boon for the business sector.

Abundant demand has meant that companies have been able to pass through the rising costs of production, keeping profit margins elevated.

### CHART 34: MARGIN FOR ERROR

Profit margins, MSCI World Index  
(trailing 12-month earnings as a percent of sales)

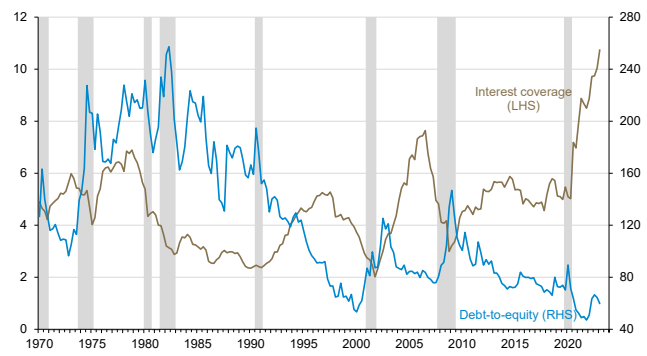


Shaded regions represent periods of US recession source: Guardian Capital based on data Bloomberg to July 14, 2023

The improved profitability and efforts over the last decade by firms to take advantage of positive financing conditions to improve balance sheets have resulted in corporate finances being in good shape, with low leverage, extended maturities of debt and high-interest coverage, providing flexibility to weather the challenges of the past three years.

### CHART 35: FUNDAMENTALLY SOUND

Nonfinancial corporate interest coverage & leverage, US  
(times interest earned) (percent)

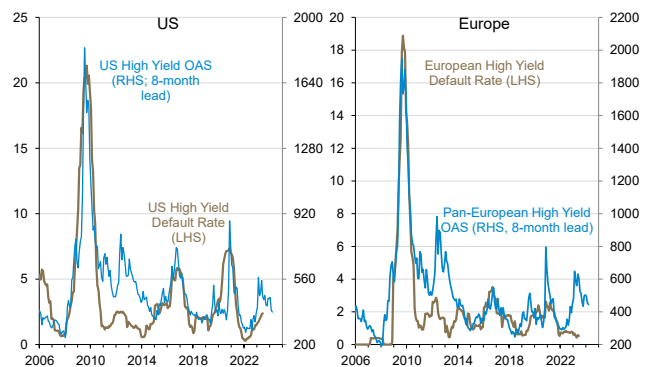


Shaded regions represent periods of US recession; source: Guardian Capital based on data from the US Federal Reserve Board to Q1 2023

This is a key reason why the surge in market interest rates over the last year has not caused material distress in credit markets as yet. Corporate bond default rates remain muted, and credit spreads are not insinuating that the credit cycle will soon take a harsh turn.

### CHART 36: DEFAULT SETTINGS

High Yield bond par-weighted default rate & credit spreads  
(percent) (basis points) (percent) (basis points)

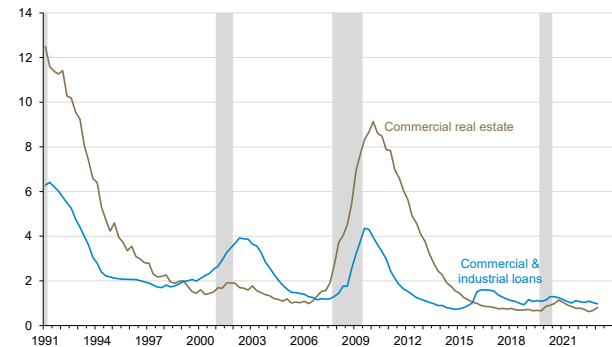


Shaded regions represent periods of US recession; source: Guardian Capital based on data from Bank of America Merrill Lynch to June 2023

Furthermore, even more vulnerable areas such as commercial real estate, which is facing high leverage, rising costs, waning demand and declining valuations in the office space, have not seen an appreciable deterioration in credit quality as yet, as overall delinquencies remain benign.

### CHART 37: MEETING OBLIGATIONS

**Delinquent\* business loans at commercial banks, US**  
(percent of outstanding loan balances)



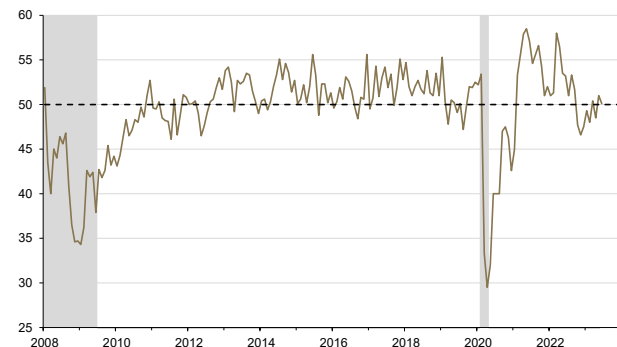
\*Delinquent loans and leases are those past due thirty days or more; shaded regions represent periods of US recession; source: Guardian Capital based on data from the US Federal Reserve Board to Q1 2023

Looking forward, depressed sentiment and tight financial conditions do not suggest that businesses are likely to table aggressive expansion plans.

That said, their solid financial position also does not suggest that a full-on retrenchment is in the offing either. Reshoring and supply chain enhancing projects are set to continue — the recent improvement in the Architecture Billings Index, a gauge of nonresidential construction activity and back into expansionary territory, is a positive sign for capital spending.

### CHART 38: BUILDING PLANS

**Architecture billings index<sup>23</sup>**  
(diffusion index; >50 denotes monthly increase in billings)



Shaded regions represent periods of US recession; source: Guardian Capital based on data from the American Institute of Architects to June 2023

Further, demand for labour remains robust — there are more posted job openings than there are unemployed people across most of the DM — and while there is scope for the pace of hiring to slow, there is nothing to suggest that widespread reductions in headcounts are likely soon.

The absence of significant and broad-based layoffs will keep unemployment rates from deviating too far from their current low levels, supporting ongoing household income growth and putting a floor under consumer confidence.

A recession is all but inevitable at some point in the future; all of these points suggest there is limited reason to believe that it will materialize in the near future to put downward pressure on earnings and drive a renewed downdraft on markets.

### Not a representative sample

Turning attention to stock markets, equities have staged a significant comeback from last year's prolonged selloff, with major indexes across the globe up by double-digits over the first six months of this year. In fact, the main global equity benchmarks are now up more than 20% from their October 2022 lows to indicate that a new bull market has officially begun (though stocks remain roughly 10% below their earlier peaks).

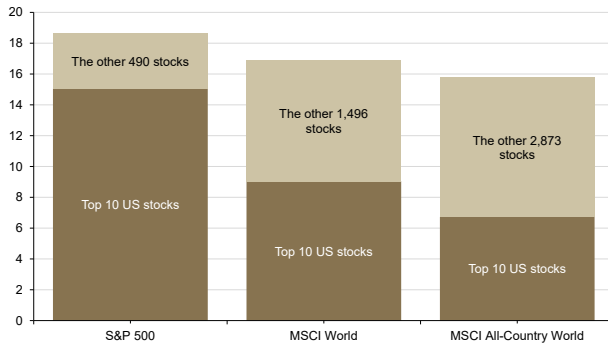
For many investors, however, their personal experiences this year vary drastically from these robust overall market gains as it has not been a case of a rising tide lifting all boats in the market.

Instead, it has been an extremely narrow subset of stocks that have soared while the rest have been left comparably treading water.

The American S&P 500 Composite Price Index is up 19% year-to-date; however, the vast majority of that gain can be attributed to just 10 stocks that together account for just one-quarter of the market-capitalization-weighted index. The other 490 stocks, in the gauge of equities of the largest US companies, together are up by less than 5%.

### CHART 39: DOING THE HEAVY LIFTING

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



Source: Guardian Capital based on data from Bloomberg to July 14, 2023

Moreover, the nearly 70% weighted-average increase in these 10 US stocks is also responsible for most of the 17% year-to-date gain in the MSCI World Index (the benchmark for Developed Market equities), while the other 1,496 stocks that account for 84% of that index weight are cumulatively up by half that; for the MSCI All Country World Index<sup>24</sup> (which is comprised of 2,883 Developed and Emerging Market stocks), these “Top Ten” account for about half of the 16% increase so far this year.

In other words, any global equity portfolio that does not hold these stocks, or is underweight relative to the market benchmark (such as value or income-biased strategies), is very likely underperforming year-to-date by a fairly significant margin.

Looking forward, the narrow leadership raises concerns about the prospect of further gains in the second half, particularly if the recent enthusiasm surrounding developments in Tech (and especially artificial intelligence) that have propelled the gains subsides — after all, market rallies are typically more durable when they have broader participation.

Positively, there is potential scope for the rest of the market to play catch-up over the rest of the year.

As discussed, economic growth continues to hold up fairly well despite numerous headwinds underpinned by a resilient consumer. Ebbing inflation and still firm labour markets suggest that some verve in real spending could persist.

Against this, earnings momentum has turned for the better across DM, with corporate profits broadly beating lowered expectations and earlier forecast

downgrades being partially unwound as some of the clouds lingering over the outlook dissipate.

### CHART 40: TURNING THE CORNER

One-month earnings per share revision ratios, World (ratio of analyst upgrades to downgrades)



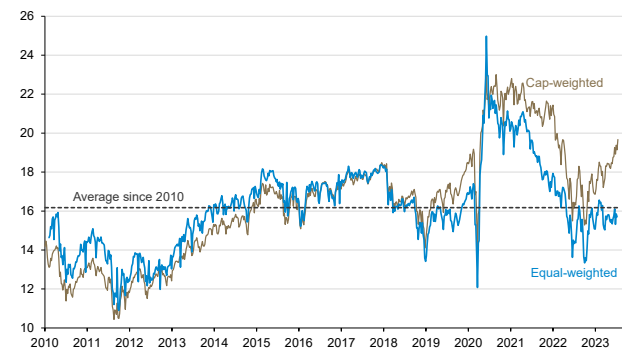
Shaded regions represent periods of US recession; source: Guardian Capital based on data from Bank of American to June 2023

This fundamental support for equities notably comes as the vast majority of stocks have registered only tepid gains, which means that valuations are not actually as stretched as overall metrics may suggest.

For example, while it is the case that the overall forward price-to-earnings ratio for the market-capitalization-weighted S&P 500 is now nearing one standard deviation above its average since 2010, the equal-weighted version of the index is trading at a below-average level.

### CHART 41: MOVING AVERAGES

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



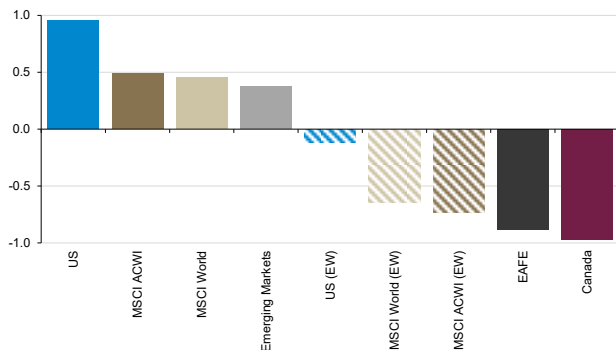
Source: Guardian Capital based on data from Bloomberg to July 14, 2023

So rather than the entire American stock market being arguably “priced for perfection,” as the oft-cited metrics may otherwise be suggesting, most stocks in the index are actually trading to the cheaper side of history and far more comparable to those in other Developed Markets. There are

opportunities for more active and selective investors.

#### CHART 42: LOOKING UNDER THE HOOD

**MSCI Index<sup>25</sup> forward price-to-earnings ratio**  
(standard deviations from average since 2010)



\*EW=equal-weighted versions of the index; source: Guardian Capital based on data from Bloomberg to July 14, 2023

Add in the likelihood that any further upside in interest rates at this point is limited, and the outlook remains fairly constructive for equities, suggesting that the rally may still have room to run — though the “headline” increases may well be somewhat muted by internal churn within market indexes as this year’s laggards close the gap with the leaders.

#### The going rate

On the topic of interest rates, the gap between the central bank guidance and financial market expectations has narrowed considerably over the last three months as concerns over a potential banking crisis came and went, and the left tails of the near-term growth distribution got trimmed.

The net result has been a general upward shift in market yields across the curve back toward the higher end of the ranges that have prevailed over the last year — notably for investors, though the higher coupon to clip now has cushioned the impact.

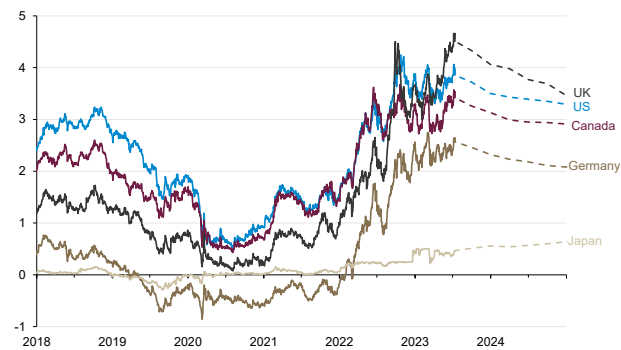
There remains potential for some further upside pressure on rates, particularly at the front end of the curve, should central banks follow through with their more hawkish guidance — for example, the market is not convinced that the US Federal Reserve will add the further 50 basis points its June *Summary of Economic Projections* indicated.

With that said, there is little expectation that rates will break out of their recent comfort zone. The consensus remains that 10-year sovereign yields will continue to tread water for the foreseeable future

around the last year’s trading ranges.

#### CHART 43: RATES REMAIN RANGEBOUND

**10-year sovereign bond yields & forecasts**  
(percent)

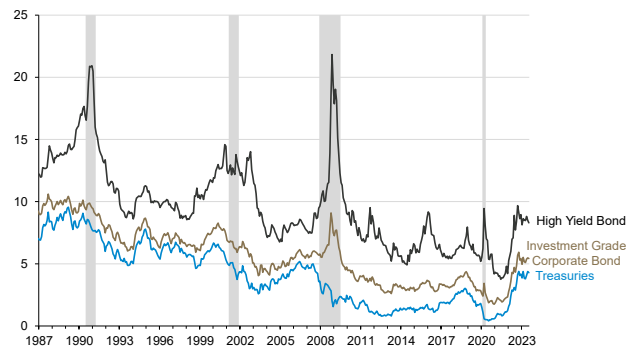


Source: Guardian Capital based on data from Bloomberg to July 14, 2023; dashed lines represent Bloomberg consensus forecasts as at July 14, 2023

A less volatile rate environment, combined with a continued moderate pace of economic expansion supporting earnings, easing inflation and limited further upside from central banks, would suggest that returns for bondholders in the near term are likely to echo their yields, which offer the best return prospects in over a decade — high-grade credit is particularly compelling in this regard.

#### CHART 44: YIELDING RESULTS

**Bloomberg bond index yields<sup>26</sup>, US**  
(percent)



Shaded regions represent periods of US recession; source: Guardian Capital based on data from Bloomberg to July 14, 2023

That said, while the shape of the curve means that shorter duration fixed income securities currently offer notable yield premiums, this segment of the market is likely to be most vulnerable to upward shifts in the expected policy path while also being subject to material reinvestment risk should rates begin to move lower — policy rates are ultimately more likely to see 3% than they are 7%.

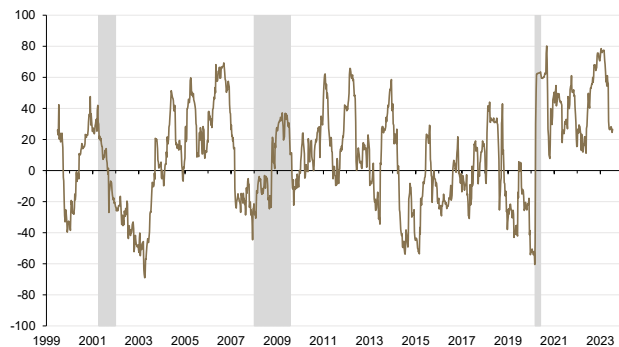
Further, the now higher rates available on longer-duration debt also provide opportunities from a risk management perspective for balanced portfolios as it increases their value as a diversifier.

The yield provides 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 breakdown of the historically strong positive correlations between stocks and bonds seen last year should continue.

From a market perspective, that suggests growth momentum can continue to lift risk assets that are not dearly priced over the wall of worry in the months ahead.

#### CHART 45: FINALLY BREAKING AWAY

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



\*Stocks=MSCI World Index; \*\*bonds=Bloomberg Global Aggregate<sup>27</sup>; shaded regions represent periods of US recession; source: Guardian Capital based on data from Bloomberg to July 14, 2023

#### Scaling the wall

The global economy and financial markets have performed better than anticipated this year.

Rather than this underpinning a marked rise in optimism, however, the focus remains on the downside risks to the outlook that keep the specter of an economic downswing and consequent reversal of market momentum looming over the horizon.

While these risks cannot be dismissed, it remains the case that the foundations that have underpinned growth over the last three years largely remain intact while the headwind of higher cost pressures is increasingly ebbing — which stands to ease pressure on policymakers to take interest rates higher — setting up the prospect of the global economy again surprising those waiting for the other shoe to drop.



## Market Returns at June 30, 2023

All returns in CAD

### CANADIAN EQUITIES

INDEX RETURNS (%)	1 Mo	3 Mos	YTD	1 Yr	5 Yrs	10 Yrs
S&P/TSX Composite	3.4	1.1	5.7	10.4	7.6	8.4
S&P/TSX 60	3.6	1.5	5.7	9.7	8.1	9.1
S&P/TSX Completion	2.4	-0.7	5.6	13.5	6.0	6.5
S&P/TSX SmallCap	0.6	-4.6	-0.3	5.3	3.4	4.9
S&P/TSX Composite High Dividend	1.8	-0.2	3.2	2.5	8.4	7.4
S&P/TSX Composite Dividend	3.1	0.3	3.9	8.0	8.0	9.0

### S&P/TSX SECTOR RETURNS (%)

INDEX RETURNS (%)	1 Mo	3 Mos	YTD	1 Yr	5 Yrs	10 Yrs
Communication Services	1.1	-1.1	2.1	0.2	7.1	9.1
Consumer Discretionary	9.1	6.3	11.3	26.2	6.3	11.0
Consumer Staples	1.5	-2.6	5.0	16.9	12.1	13.6
Energy	3.9	0.0	-2.3	0.8	5.7	3.7
Financials	4.2	2.0	3.7	5.9	7.8	10.3
Health Care	-2.0	0.5	1.3	-15.5	-28.8	-23.1
Industrials	4.8	2.1	8.7	21.7	11.6	13.4
Information Technology	4.4	16.6	47.5	58.3	18.2	20.0
Materials	0.8	-6.9	0.6	11.6	7.0	5.7
Real Estate	0.7	-2.8	2.8	3.0	3.8	7.8
Utilities	-2.3	-1.5	5.2	-7.1	10.1	8.3

### U.S. EQUITIES

INDEX RETURNS (%)	1 Mo	3 Mos	YTD	1 Yr	5 Yrs	10 Yrs
S&P 500	3.8	6.3	14.2	22.7	12.5	15.5
Dow Jones Industrial Average	1.9	1.7	2.5	17.2	9.7	13.8
NASDAQ	3.8	10.3	28.7	28.2	13.1	17.7
Russell 1000	3.9	6.2	14.0	22.4	12.1	15.3
Russell 2000	5.3	2.9	5.6	15.2	4.3	10.8
Russell 3000	4.0	6.0	13.5	22.0	11.5	15.0
Russell 1000 Growth	4.0	10.3	26.0	30.4	15.3	18.4
Russell 1000 Value	3.8	1.8	2.7	14.4	8.3	11.8

### S&P 500 SECTOR RETURNS (%)

INDEX RETURNS (%)	1 Mo	3 Mos	YTD	1 Yr	5 Yrs	10 Yrs
Communication Services	-0.1	10.6	33.1	20.3	9.4	8.9
Consumer Discretionary	9.1	12.0	29.9	27.9	10.1	15.6
Consumer Staples	0.5	-1.8	-1.1	9.4	11.2	12.2
Energy	3.8	-3.1	-7.7	21.8	6.7	6.8
Financials	3.9	3.0	-2.9	12.3	7.3	12.7
Health Care	1.6	0.7	-3.8	8.1	11.9	15.4
Industrials	8.3	4.1	7.6	28.4	10.7	14.2
Information Technology	3.8	14.6	39.4	43.9	22.0	24.7
Materials	8.1	1.0	5.2	18.1	9.9	12.9
Real Estate	2.8	-0.5	1.4	-1.7	6.7	N/A
Utilities	-1.0	-4.7	-7.9	-1.2	8.4	11.9

### INTERNATIONAL EQUITIES

INDEX RETURNS (%)	1 Mo	3 Mos	YTD	1 Yr	5 Yrs	10 Yrs
MSCI World Index (Net, C\$)	3.2	4.5	12.4	21.6	9.2	12.1
MSCI EAFE Index (Net, C\$)	1.8	0.7	9.1	21.8	4.5	7.9
MSCI ACWI (C\$)	3.0	3.8	11.3	19.5	8.2	11.3
MSCI France (C\$)	3.8	0.9	15.6	35.1	7.1	10.1
MSCI Germany (C\$)	2.5	0.5	15.1	31.7	1.9	6.5
MSCI Japan (C\$)	1.3	4.1	10.4	21.2	3.3	7.7
MSCI UK (C\$)	1.1	-0.1	5.9	16.1	3.0	6.3
S&P/IFC Investable (Emerging Markets)	1.2	-0.4	3.2	6.3	1.8	6.3
MSCI EAFE Growth (Gross, C\$)	0.8	0.6	11.8	23.7	5.9	9.3
MSCI EAFE Value (Gross, C\$)	2.9	1.2	7.3	21.3	3.7	7.2

### INTERNATIONAL EQUITIES

MSCI EAFE SECTOR RETURNS (%)	1 Mo	3 Mos	YTD	1 Yr	5 Yrs	10 Yrs
Communication Services	-0.4	-4.8	5.0	4.8	0.7	4.9
Consumer Discretionary	4.4	2.7	20.0	33.9	5.6	8.7
Consumer Staples	0.5	-2.9	4.4	12.7	2.9	7.1
Energy	3.0	-2.1	-1.8	17.3	1.1	5.6
Financials	3.2	2.3	4.7	23.3	3.4	6.5
Health Care	-2.0	-0.3	4.9	12.6	7.6	9.3
Industrials	3.3	3.8	16.0	33.0	5.7	9.4
Information Technology	-0.4	3.5	23.0	36.1	8.9	13.2
Materials	3.6	-3.9	3.3	19.4	5.9	9.0
Real Estate	-1.6	-4.2	-6.3	-5.0	-4.8	N/A
Utilities	1.7	1.7	9.9	19.5	6.0	7.7

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

## Market Returns at June 30, 2023

All returns in CAD

### CANADIAN FIXED INCOME

INDEX RETURNS (%)	1 Mo	3 Mos	YTD	1 Yr	5 Yrs	10 Yrs
FTSE Canada 91 Day TBill	0.3	1.0	2.1	3.7	1.5	1.1
FTSE Canada Short Term Overall Bond	-0.3	-0.8	1.0	1.4	1.1	1.4
FTSE Canada Mid Term Overall Bond	-0.5	-1.9	1.8	3.1	1.0	2.3
FTSE Canada Long Term Overall Bond	1.1	0.6	5.4	5.9	-0.3	2.8
FTSE Canada Universe Bond	0.0	-0.7	2.5	3.1	0.7	2.1
FTSE Canada High Yield Overall Bond	0.3	0.7	2.6	5.4	3.4	4.8
FTSE Canada Real Return Bond Overall	0.1	0.0	-0.3	3.4	0.5	2.3

### SECTOR RETURNS (%)

INDEX RETURNS (%)	1 Mo	3 Mos	YTD	1 Yr	5 Yrs	10 Yrs
FTSE Canada Federal Bond	-0.3	-1.5	1.4	1.6	0.3	1.3
FTSE Canada Provincial Bond	0.3	-0.5	3.3	4.0	0.4	2.4
FTSE Canada All Corporate Bond	0.2	0.2	3.0	4.2	1.6	2.7

### GLOBAL FIXED INCOME

INDEX RETURNS (%)	1 Mo	3 Mos	YTD	1 Yr	5 Yrs	10 Yrs
FTSE World Government Bond	-2.7	-4.0	-0.7	0.0	-1.9	1.8

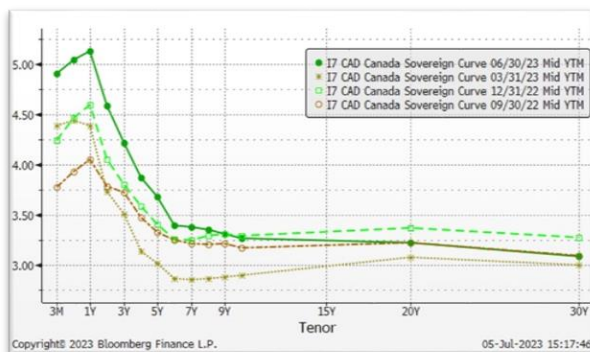
### COMMODITY

	1 Mo	3 Mos	YTD	1 Yr	5 Yrs	10 Yrs
Bloomberg WTI Cushing Crude Oil Spot Price	1.0	-8.7	-14.0	-31.5	-0.8	-0.8
Bloomberg European Dated Brent BFOE Price	2.4	-7.1	-13.0	-32.5	-0.6	-0.7
Edmonton Crude Oil Syncrude Sweet Blend FOB Spot	2.7	-8.0	-12.1	-32.0	0.9	-0.7
S&P GSCI Nat Gas Index Spot	20.2	23.4	-38.9	-47.1	-0.7	-0.1
S&P GSCI Copper Index Spot	0.3	-9.5	-3.0	3.3	4.8	4.5
S&P GSCI Gold Index Spot	-5.2	-5.0	3.2	9.5	9.1	7.1

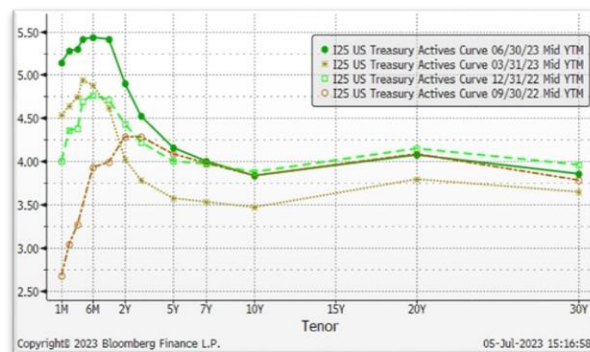
### CURRENCY

	1 Mo	3 Mos	YTD	1 Yr	5 Yrs	10 Yrs
CAD/USD (% chg)	-2.7	-2.2	-2.3	2.6	0.1	2.3
CAD/Yen (% chg)	-5.9	-10.0	-10.8	-3.6	-5.1	-1.5
CAD/GBP (% chg)	-0.1	0.5	3.2	7.4	-0.7	0.5
CAD/Euro (% chg)	-0.4	-1.8	-0.2	7.1	-1.3	0.5

### 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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## End notes

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- <sup>1</sup> The MSCI World Index captures mid- and large-cap representation across 23 developed market countries.
- <sup>2</sup> The Organisation for Economic Co-operation and Development (OECD) is an aggregate including the 38 OECD economies and six major non-member economies (Brazil, China, India, Indonesia, Russia and South Africa).
- <sup>3</sup> The S&P 500 is an index of 500 stocks designed to reflect the risk/return characteristics of the large-cap US equity universe.
- <sup>4</sup> 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.
- <sup>5</sup> 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).
- <sup>6</sup> 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.
- <sup>7</sup> International Monetary Fund, World Economic Outlook, *A Rocky Recovery*, April 11, 2023, <https://www.imf.org/en/Publications/WEO/Issues/2023/04/11/world-economic-outlook-april-2023>
- <sup>8</sup> 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.
- <sup>9</sup> New deposits (loans) to (from) households at Chinese financial institutions and depository corporations.
- <sup>10</sup> A number of economic stimulus measures enacted by the Chinese government.
- <sup>11</sup> 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.
- <sup>12</sup> 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
- <sup>13</sup> 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.
- <sup>14</sup> 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
- <sup>15</sup> The Federal Reserve Bank of New York Global Supply Chain Pressure Index is a measure of global supply chain conditions.
- <sup>16</sup> A producer price index is a price index that measures the average changes in prices received by domestic producers for their output.
- <sup>17</sup> A consumer price index measures the price of a weighted average market basket of consumer goods and services purchased by households. The shelter component measures the costs of rental and owned accommodation. The OECD nominal house price index covers the sales of newly-built and existing dwellings, following the recommendations from the Residential Property Prices Indices manual (OECD, *Handbook on Residential Property Price Indices*, [https://read.oecd-ilibrary.org/economics/handbook-on-residential-property-price-indices\\_9789264197183-en#page117](https://read.oecd-ilibrary.org/economics/handbook-on-residential-property-price-indices_9789264197183-en#page117)) based on data collected by national statistical institutes or ministries.
- <sup>18</sup> 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.
- <sup>19</sup> Statistics Canada, Publications, 13-605X, *Reconciling Canadian-U.S. measures of household disposable income and household debt*, <https://www150.statcan.gc.ca/n1/pub/13-605-x/2012005/article/11748-eng.htm>
- <sup>20</sup> Real personal consumption expenditures (PCE), is the value of the goods and services purchased by, or on the behalf of, U.S. residents deflated by the index of prices for those goods and services.
- <sup>21</sup> The services Purchasing Managers Index (PMI) is a measure of the prevailing direction of economic trends in the service sector; based on a monthly survey of service sector companies to determine whether business conditions are improving, unchanged, or deteriorating compared to the previous survey, seasonally adjusted.
- <sup>22</sup> The NAHB/Wells Fargo HMI is a weighted average of three separate component indices: Present Single-Family Sales, Single-Family Sales for the Next Six Months, and Traffic of Prospective Buyers.
- <sup>23</sup> The AIA/Deltek Architecture Billings Index is an economic indicator for nonresidential construction activity, with a lead time of approximately 9–12 months. Investment groups like Wells Fargo, media outlets, firms of all sizes, and business leaders rely on this leading monthly economic indicator to assess business conditions and predict and track the market.
- <sup>24</sup> The MSCI ACWI is a market capitalization-weighted index of equities in both Developed and Emerging Markets
- <sup>25</sup> 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.

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<sup>26</sup> 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.

<sup>27</sup> The Bloomberg Barclays Global Aggregate Bond Index is a flagship measure of global investment grade debt from twenty-four local currency markets.