

Economic Outlook

Spring 2022

SUMMARY*

- The last few years have seen a seemingly unending string of adverse shocks hit the world, disrupting the normal course of economic activity and, more generally, everyday life.
- And, while the New Year began with hopes of much-needed calm on the horizon, the last three months have seen the emergence of new downside risks that have weighed on anticipated growth momentum and reverberated through global financial markets.
- But, though it may well be the case that the outlook now is not as optimistic as it was a few months ago, with forecast confidence intervals widening and rising recession risks becoming a focal point of discussions, the backdrop is still far from dour.
- In fact, the base case expectation remains that global growth will be sustained at rates still notably above pre-crisis trends, with the pace of expansion likely to perk up in the coming months as pandemic-related restrictions are further scaled back and activity more broadly returns to pre-crisis levels.
- Add to that the fact that investor sentiment is highly depressed and year-do-date market weakness has made valuations more compelling, and it is arguable that there is still reason to fight back urges to materially scale back risk exposures at this juncture.

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A series of unfortunate events

The last few years have seen a seemingly unending string of adverse shocks hit the world, disrupting the normal course of economic activity and, more generally, everyday life.

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Get well soon

One of the more positive developments so far this year has been the progress of the pandemic.

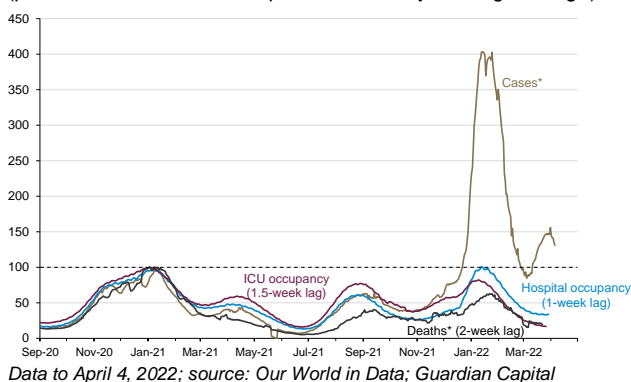
The wave of the highly transmissible “Omicron” variant of COVID-19 that swelled at the outset of this year subsided almost as rapidly — and the more recent uptick in case counts tied to the “BA.2” strain is already ebbing from lower peaks as the northern hemisphere moves into the spring.

Perhaps most notably, and positively for the road ahead, the surge in infections seen this year (and the number of officially “confirmed” cases undoubtedly significantly understates the actual spread) has not resulted in a commensurate spike in worst-case outcomes. Hospitalizations, especially

those requiring intensive treatment, and deaths have remained low relative to cases versus earlier waves.

CHART 1: PARTING WAYS

COVID-19 cases, hospital occupancy & deaths, G7
(percent of winter 2020/21 peak; seven-day moving average)

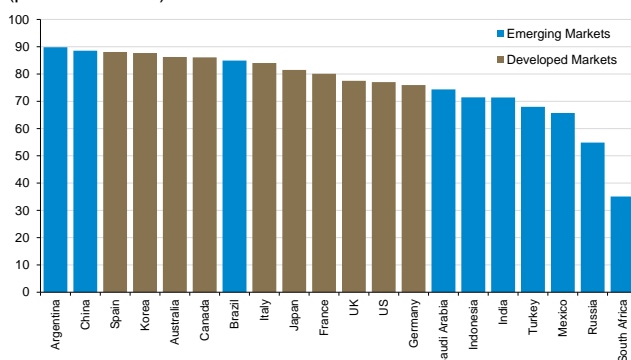


The relatively better health outcomes are due to a combination of factors, with the increased expertise in managing and treating illness with effective therapeutics among the top of the list.

Perhaps a more important driver, however, may be the increased resistance to infection across populations brought about by vaccination (Emerging Markets (EM) still trail Developed Markets (DM) on this front) and prior illness — the waves so far this year greatly enhancing the latter (prior illness) as the pace of the former (vaccination) slows.

CHART 2: SHORING UP DEFENSES

Population with at least one COVID-19 vaccine dose, G20
(percent of total)



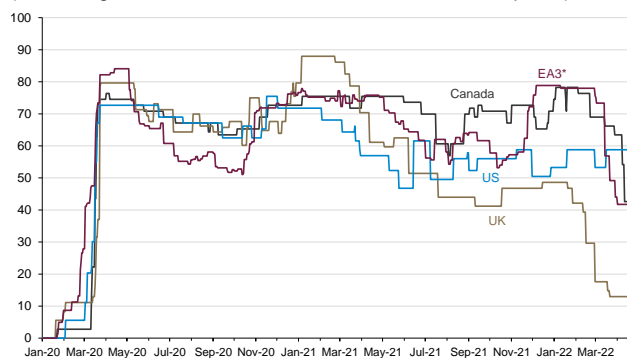
Indeed, the seemingly limited traction of the latest variant (which is estimated to be more transmissible) may be indicative of some degree of herd immunity being established in the third year of this pandemic

that could limit the severity of any future contagions.

The indications of the declining severity of the pandemic, in tandem with growing public pressures to begin the post-pandemic era and waning political appetite to keep restrictions in place, have led to a marked easing of stringent public health measures.

CHART 3: LOOSENING THE RESTRAINTS

Government COVID-19 response stringency index¹
(index; higher denotes more restrictive measures in place)

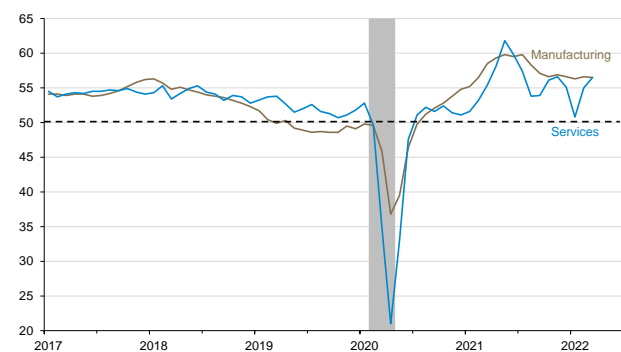


*EA3=GDP-weighted average of France, Germany and Italy; data to April 15, 2022; source: Oxford COVID-19 Government Response Tracker; Bloomberg; Guardian Capital

The notable loosening in public health restrictions across DM economies has spurred a sharp pickup in production, particularly in the far more pandemic-sensitive service industries. That momentum is likely to carry into months ahead as the wave of infection ebbs and reopening broadens further toward more “normal” degrees.

CHART 4: GETTING SERVICED

Purchasing managers’ index², Developed Markets
(diffusion index; >50 denotes expansion)



Data to March 2022; shaded region represents period of US recession; source: Bloomberg; Guardian Capital

“Zero” cause for alarm

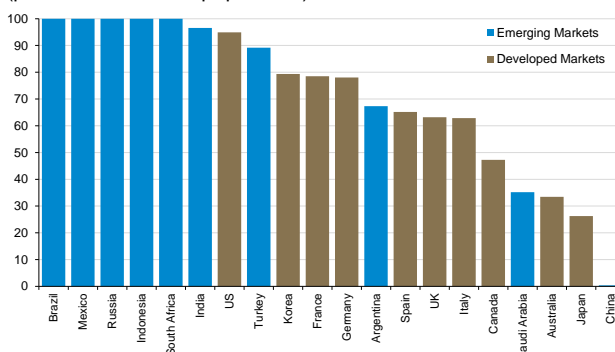
With that said, not every country is intent on moving forward with living with the virus.

China has remained steadfast in its commitment to a “COVID Zero” policy and, up to this point, it has been hard to argue with its success in limiting the spread of the disease throughout the country.

Confirmed cases of COVID-19 in China stand at just 2% of those in the US, despite the fact that it has more than four times the population — estimates of the “true” rate of infection suggest a higher tally, however, it still covers just a tiny fraction of the total population and makes it an outlier among its peers.

CHART 5: LIMITED EASTERN EXPOSURE

Cumulative estimated “true” COVID-19 cases*, G20
(percent of the total population)



*based on the mean estimate of true cases as per the Institute of Health Metrics and Evaluation’s model; data to April 8, 2022; source: Our World in Data; Institute of Health Metrics and Evaluation; Bloomberg; Guardian Capital

The one downside to this success in avoiding contagion, so far, is that it means that the population has established effectively no “natural” resistance.

Additionally, the domestically produced vaccines used in the country’s mass immunization campaign have proven to have low efficacy and the highly contagious new strains of the virus have resulted in China’s largest outbreak of the pandemic.

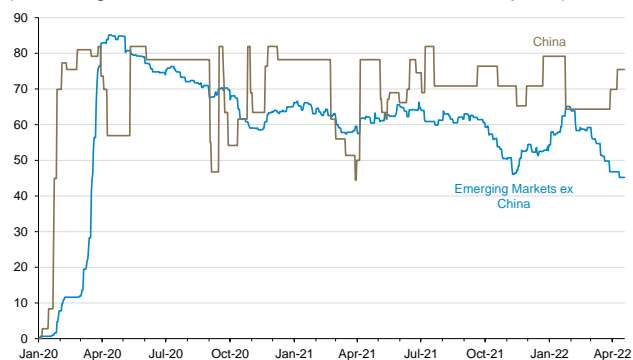
The vast majority of cases are, fortunately, asymptomatic (only known due to mass testing), however, the strict zero-tolerance policy still means these people and their close contacts face isolation.

Moreover, in sharp contrast to other countries, where restrictions are being scaled back, China is

reinstating public health stringency measures and effectively shutting down entire cities (including large economically important cities) for periods of weeks in an effort to stem the spread of infection.

CHART 6: PARTING WAYS

Government COVID-19 response stringency index
(index; higher denotes more restrictive measures in place)

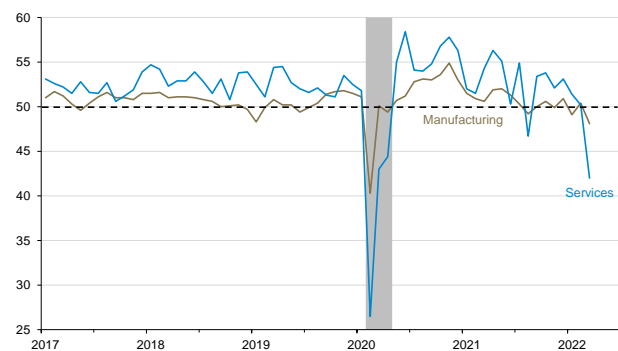


*Emerging Markets excluding China = GDP-weighted average of G20 Emerging Market indexes; data to April 15, 2022; source: Oxford COVID-19 Government Response Tracker; Bloomberg; Guardian Capital

The early indications of the impact of these restrictions on China's economy have been considerable, with gauges of activity in the manufacturing and services industries plunging to lows not seen since the early days of the pandemic.

CHART 7: CRACKS IN CHINA

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



Data to March 2022; shaded region represents a period of US recession; source: Bloomberg; Guardian Capital

Given China's importance in the global economy, particularly its role key within the world's production processes, these measures cause ripples across the world and further challenge supply chains that have been constrained since the pandemic began.

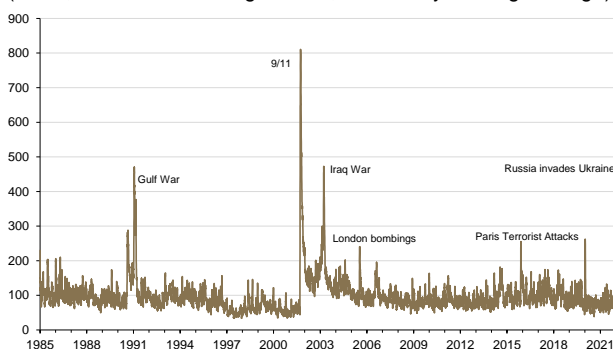
Russian into it

As though the uncertainties related to the ongoing pandemic were not enough, the world was dealt another shock when Russia decided to invade Ukraine in February.

The incursion — triggered by Ukraine's aspiration to join the North Atlantic Treaty Organization (NATO) which Russia viewed as an unwanted expansion of the West into the former Soviet bloc — represents one of the largest geopolitical crises in decades.

CHART 8: RATCHETING UP THE RISK

Geopolitical risk index³, World
(index; 1985-2019 average = 100; seven-day moving average)



Data to April 8, 2022; source: Caldara & Iacoviello (Measuring Geopolitical Risk; 2021); PolicyUncertainty.com; Guardian Capital

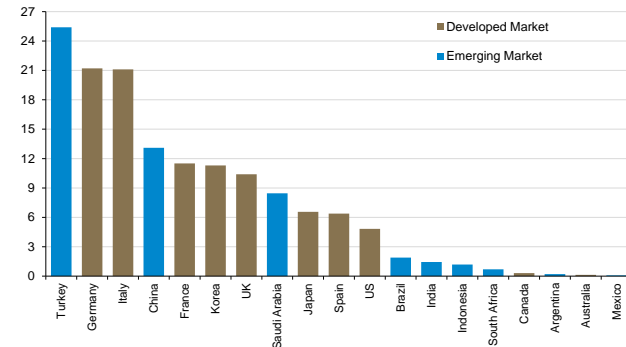
The military aggression, and the punitive actions taken by governments in response (including a broad array of sanctions), serve as yet another driver of investor risk aversion and further muddies the outlook for global growth.

While it may be the case that Russia (and Ukraine) are not exactly significant cogs in the global economic machine — they jointly account for 2% of global output, roughly equivalent to the size of Canada — they are important commodity producers.

Russia is the world's largest exporter of natural gas (9% of total global trade in the good), the second-biggest exporter of crude oil (11%, behind Saudi Arabia) and the third-largest exporter of coal (15%, behind Indonesia and Australia) — Europe is particularly dependent on Russian-produced Energy products, with Asia (China and South Korea in particular) a notable importer as well.

CHART 9: ENERGY DEPENDENCE

Russian share of energy product* imports, G20
(percent of total energy product imports, 2020)

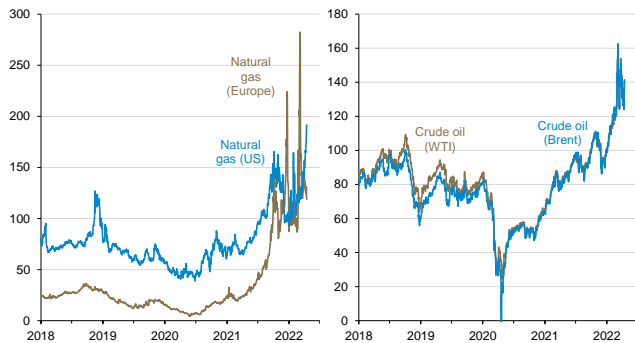


*Energy product = harmonized system code 27 (Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral waxes); source: The Observatory of Economic Complexity; Guardian Capital

Most of these key regions have yet to limit imports of Russian-produced energy (Canada and the US have banned them, but have comparatively negligible dependence), however, the potential for disruptions in already supply-constrained markets has underpinned a surge in prices, particularly European benchmarks.

CHART 10: ENERGY POWERED

Energy commodity prices
(index; January 3, 2022 = 100)



Data to April 14, 2022; source: Bloomberg; Guardian Capital

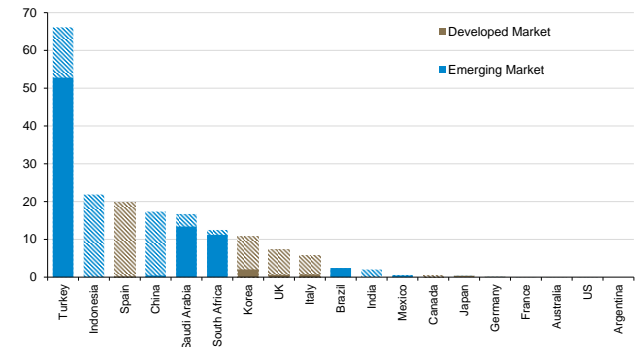
For sure, rising energy prices benefit commodity producers and exporters (providing a windfall for governments in the likes of Saudi Arabia and Canada), but they are a big negative to everyone else, as they take a bigger chunk out of household and business operating budgets.

The conflict in Ukraine is also impacting consumer purchasing power in another, arguably, more important way, as well.

Russia and Ukraine are two of the world's largest producers of cereal grains, cumulatively accounting for a quarter of global exports of wheat and 15% of trade in corn — Emerging Europe, Middle East & Africa (EMEA) are particularly dependent.

CHART 11: RIGHT IN THE BREADBASKET

Russian share of cereal product* imports, G20
(percent of total energy product imports, 2020)



*Cereal product = harmonized system code 10 (Cereals; includes wheat, rye, barley, oats, corn/maize and rice); solid bars represent Russian share; shaded bars represent Ukrainian share; source: The Observatory of Economic Complexity; Guardian Capital

As with energy, supply concerns have sent agricultural commodity prices soaring — and the fact that Russia is the second-largest exporter of potassium chloride (or potash), a key component of fertilizer, has driven a surge in prices there as well, putting added cost-push pressures on food prices.

CHART 12: GROCERY GROSS-UP

UN Food & Agriculture Organization food price index⁴
(index; 2014 to 2016 average = 100)



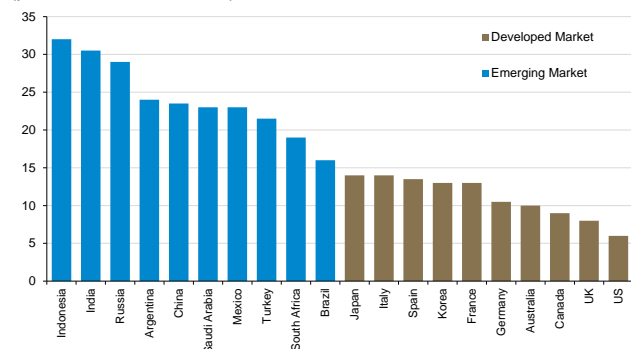
*FAO food price index is a measure of the monthly change in international prices of a basket of food commodities weighted by their average export share from 2014-2016; data to March 2022; shaded regions represent periods of US recession; source: United Nations Food & Agriculture Organization; Guardian Capital

Such sharply rising costs of the necessities put pressure on households and reduce their capacity for spending elsewhere.

The demand destruction and hit to consumer sentiment can be significant, especially in EM where food accounts for a relatively larger share of household budgets — and rising costs of food have served as a catalyst for civil unrest and political turnover in the past.

CHART 13: FOOD COSTS PINCHING EM

Share of consumer expenditure on food, G20 (percent, 2015 to 2016)



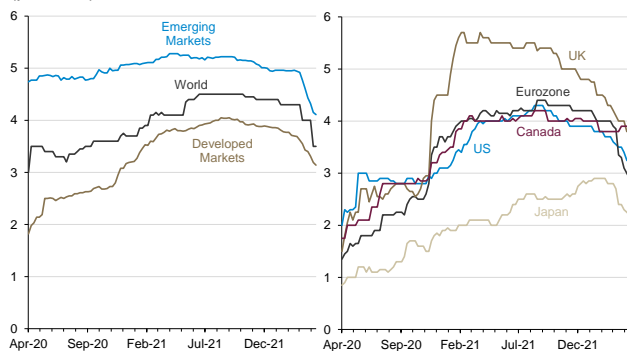
Source: US Department of Agriculture; Our World In Data; Guardian Capital

Other than that, Mrs. Lincoln...

The addition of these shocks, on top of the already risk-laden economic backdrop, has led forecasters to get their erasers out and revise down their growth expectations — with the outlooks for EM and Europe taking the biggest relative hits.

CHART 14: DOWN BUT NOT OUT

Consensus real GDP growth forecast, 2022 (percent)



Data to April 15, 2022; data are Bloomberg consensus forecasts for calendar year 2022; source: Bloomberg; Guardian Capital

These developments are clearly not ideal, but it is important to note that, rather than suggesting the outlook has turned for the worse, in an absolute sense — and a recession is imminent — it is instead just suggesting things are expected to be “less

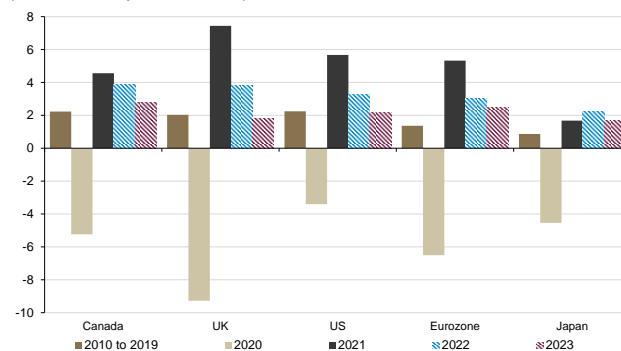
good” than they were a few months ago.

The scaling back of pandemic restrictions and resultant broader reopening of economies means that supply-side constraints on activity will lessen and provide a continued “recovery” boost to growth.

In fact, it is still the case that the pace of expansion across the global economy is still anticipated to be notably above the trend rates that prevailed in the pre-pandemic decade, both this year and next.

CHART 15: STILL ABOVE BOARD

Real GDP growth (annualized percent rate)

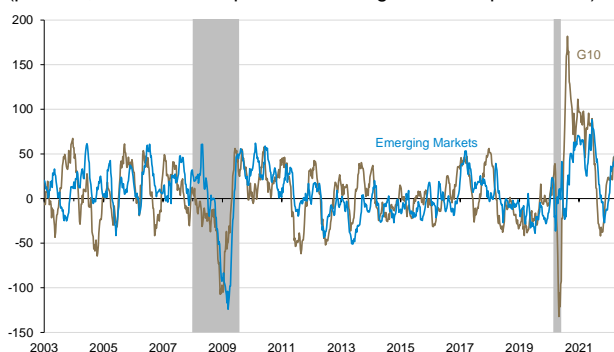


Actual data to 2021; data for 2022 and 2023 are Bloomberg consensus forecasts as at April 15, 2022; source: Bloomberg; Guardian Capital

Moreover, as has been the case for much of the last two years, the dataflow has continued to outperform expectations of late — forecasts are too dour and the global economy is again proving to be more resilient than assumed.

CHART 16: WHAT A SURPRISE

Citi economic surprise index⁵ (percent; >0 denotes reports exceeding market expectations)



Data to April 15, 2022; shaded region represent periods of US recessions; source: Bloomberg; Guardian Capital

In other words, despite the rising pessimism in the marketplace and narrative of late, the current

backdrop and outlook for the months ahead are not actually all that bad — activity is holding up surprisingly well throughout the ongoing uncertainty, and momentum should pick up in the months ahead.

Further, should these risks subside (i.e. a resolution in the conflict in Ukraine and a quick easing of contagion or loosening of restrictions in China), it is arguable that the scope for revision downgrades could reverse course.

Conspicuous consumption

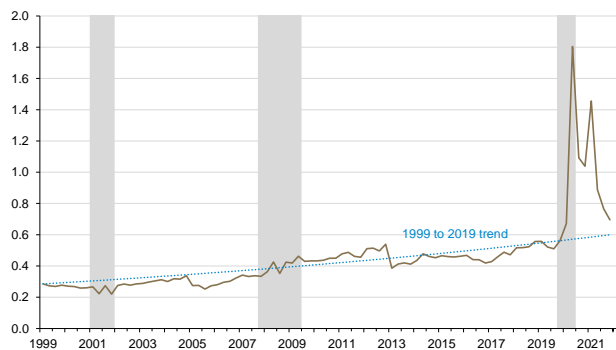
The key factor behind the anticipated sustained above-pre-crisis-trend global growth is the health of consumers. Despite the turmoil over the last two years, household finances have scarcely ever been in better shape (especially in DM).

The transfer of funds to households, as part of governments' unprecedented wave of stimulus to blunt the impact of earlier lockdowns (estimated by the International Monetary Fund at roughly 20% of the gross domestic product of the G7), combined with the restrictions greatly constraining spending (especially on services, which accounted for two-thirds of household budgets before the pandemic), has resulted in a global savings glut.

Since the start of 2020, households across the G7 economies have socked away nearly US\$4 trillion more in savings versus pre-crisis trends.

CHART 17: A GLUT OF SAVINGS

Personal savings, G7
(trillions of US dollars)



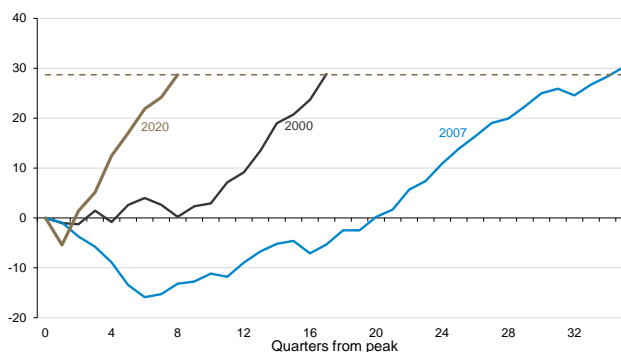
Data to Q4 2021; shaded regions represent periods of US recession; source: Organisation for Economic Co-operation and Development⁶; Bloomberg; Guardian Capital

That “excess saving” has been compounded by the strength in global financial and residential real estate markets over the last two years, despite the historic shock created by the pandemic.

For example, US consumer wealth is now 29% above its pre-crisis peak — it took just over four years to hit this point after the “Tech Wreck” at the turn of the millennium and eight and a half years following the crash of the housing bubble and resultant global financial crisis. This has been a historically rapid rebound and accumulation of wealth.

CHART 18: WORTHWHILE RECOVERY

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



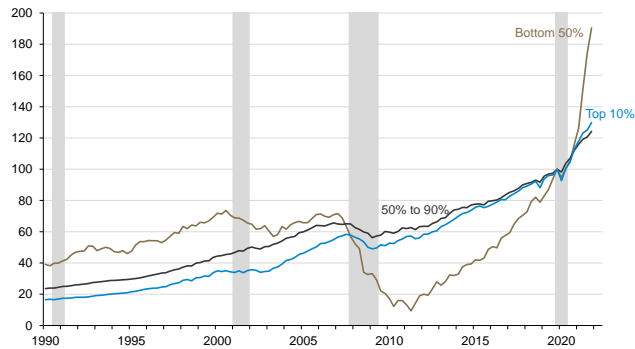
Data to Q4 2022; 2000 peak = Q3 2000; 2007 = Q3 2007; 2020 = Q4 2019; source: US Federal Reserve Board, Guardian Capital

Also positive is the fact that the gains in wealth have been shared — it has not strictly been a case of the rich getting richer. Gains at the lower end of the wealth spectrum continue to outpace those among richer cohorts on a percentage basis.

Aggregate net worth among the bottom 50% of US households posted its largest calendar-year gain in the data since back to 1990 (+64%). This cohort's wealth has now more than doubled from its early 2020 crisis lows and stands 90% above pre-crisis peaks (for comparison, the top 10%'s wealth is up 40% from the lows and 30% above pre-pandemic levels).

CHART 19: SPREAD THE WEALTH

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



Data to Q4 2021; shaded regions represent periods of US recession;
source: US Federal Reserve Board, Guardian Capital

The comparatively outsized increase is, in part, a function of the smaller bases (the bottom 50% cumulatively had US\$4 trillion in aggregate wealth at the end of 2021, compared to US\$99 trillion for the top 10%), but these relatively stronger gains have resulted in a narrowing in the wealth gap.

The ratio of wealth between the bottom 50% and the top 10% at the end of 2021, was the highest it has been since 2004 (i.e. before the housing bubble popped and the resultant financial crisis) — there remains substantial wealth inequality, but it is a positive development, from a social stability perspective, indicating that the gap is actually shrinking.

CHART 20: PLAYING CATCH-UP

Ratio of bottom 50% household net wealth to top 10%, US
(percent)



Data to Q4 2021; shaded regions represent periods of US recession;
source: US Federal Reserve Board, Guardian Capital

That the lower end of the spectrum has been able to actively participate in the wealth gains (unlike the post-financial crisis period a decade ago), has

undoubtedly been a key reason why consumer spending has been so resilient — these households have a higher marginal propensity to consume (i.e. they spend a higher share of additional funds they receive either via increases in wealth or income).

The wealth cushion is constructive for spending growth, especially as the access to services increases with the easing of pandemic restrictions.

Further, the accumulated savings can mitigate the impact of higher costs of living — there is scope for savings rates to fall after two years of “over saving”.

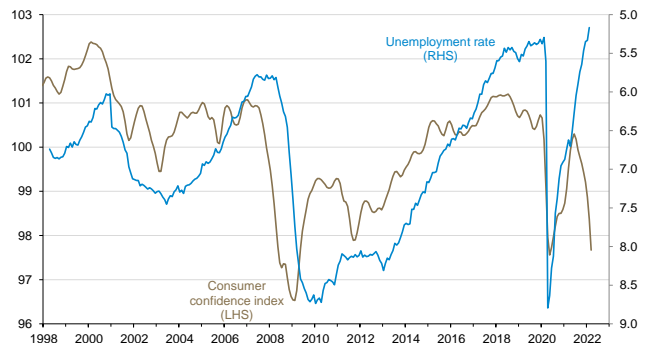
With that said, savings caches, though ample at the moment, are not infinite. They can bridge the gap between increases in prices and wages, but not forever — the longer that excessive price pressures persist, the greater the impact on real spending.

As it stands, actual consumer spending has held firm of late, but the specter of persistently rising costs of living has taken a bite out of consumers’ optimism for the days ahead — which impacts longer-term and larger-scale spending plans.

The aggregated Consumer Confidence Index for the 38 member countries of the Organisation for Economic Co-operation and Development (OECD) plunged to its lowest level in two years in March on rising concerns over inflation — this is despite unemployment rates across the economic grouping touching their lowest levels on record back to 1998.

CHART 21: MIND THE GAP

Consumer sentiment & unemployment, OECD*
(index; average=100) (percent; inverted scale)



*OECD=aggregate of 38 member countries of the Organisation for Economic Co-operation and Development; sentiment data to March 2022; unemployment data to February 2022; source: Organisation for Economic Co-operation and Development; Bloomberg; Guardian Capital

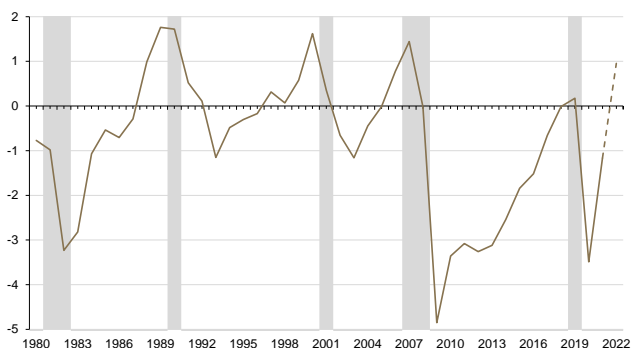
Don't just sit there, do something!

Of course, that indication of tightness in job markets is creating another source of “cost-push” inflation, in addition to rising raw material costs, as it means that firms increasingly have to raise compensation to compete for increasingly scarce qualified workers.

As well, continued strong demand for goods and services from consumers and businesses against constrained supplies is also exerting broad upward pressures on prices — “demand-pull” inflation that is unlikely to fade much as the remaining slack created by the pandemic crisis across DM is expected to get absorbed over the coming year.

CHART 22: LIMITED CAPACITY

Output gap, Developed Markets
(percent of potential gross domestic product)

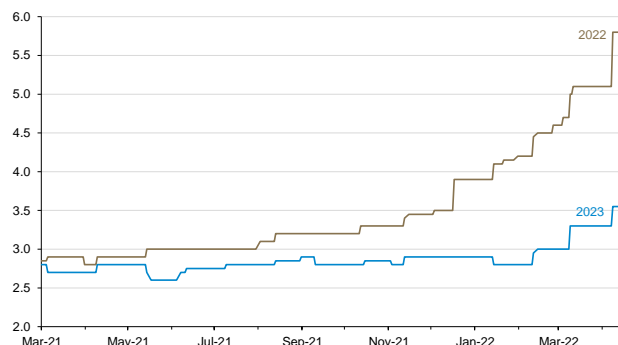


Data to 2021; dashed lines are forecasts as per the October IMF World Economic Outlook; shaded regions represent periods of US recession; source: International Monetary Fund; Bloomberg; Guardian Capital

These factors, combined with the impact of the low base level on year-over-year calculations (referred to as “base effects”) have not only resulted in inflation rates hitting multi-decade highs globally, but also see expectations for pressures to persist longer than previously assumed. Inflation forecasts have been raised materially as a result.

CHART 23: PUMPED UP KICKS

Consensus consumer price inflation forecasts, World
(year-over-year percent change)



Data to April 15, 2022; source: Bloomberg, Guardian Capital

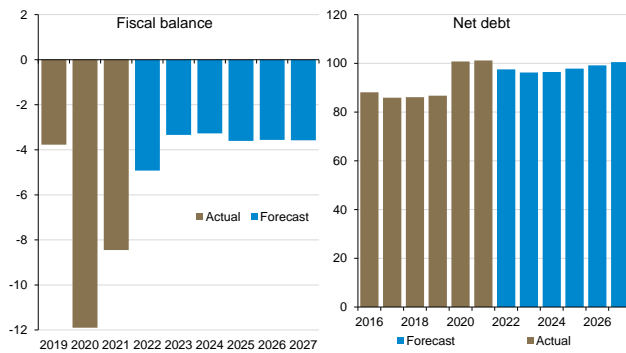
The prospect of sustained price increases that are persistently well above explicit targets raises the pressure on policymakers to do something to mitigate the longer-term economic damage that high inflation can have on consumer spending and business investment decisions.

Unfortunately, aside from rolling back economic restrictions, fiscal and monetary policy decisions can do little to impact the supply-side of the economy, especially in the short-run. That means that officials are tasked with making efforts to tap the brakes on the demand side of the equation.

For their part, governments are allowing pandemic policy supports to lapse, which will see a reduction in spending and serve as a drag on growth. That said, expenditure is still expected to remain above pre-crisis levels, as there is little appetite among fiscal policymakers to actually tighten their belts at the moment. Sizable deficits and elevated debt loads are expected to persist.

CHART 24: FISCALLY UNFIT

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



Forecast data as per IMF's April 2022 World Economic Outlook
Source: International Monetary Fund, Guardian Capital

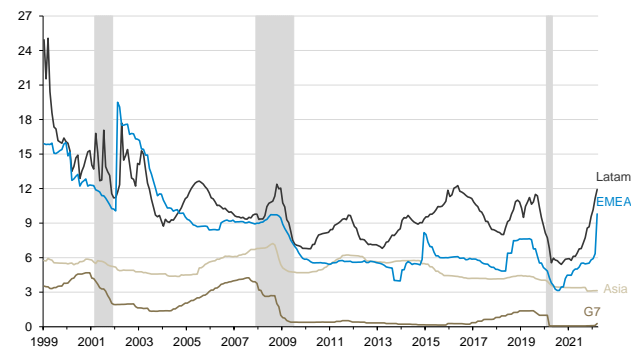
That puts the onus on monetary policy to shoulder the burden of tamping down excess demand.

Against the general underlying strength in the economy and ebbing pandemic risks, central bankers have stepped up, making significant shifts in their rhetoric away from supporting an economy to putting added emphasis on fighting inflation.

The big talk, however, has yet to be followed up with much action across DM — central banks in the UK, US and Canada have made their first volleys of higher policy rates; in contrast, EM central banks (particularly those in Eastern Europe and Latin American) have been far more proactive and already find themselves close to the end of their tightening cycles.

CHART 25: AHEAD OF THE GAME

Central bank policy interest rates
(percent)



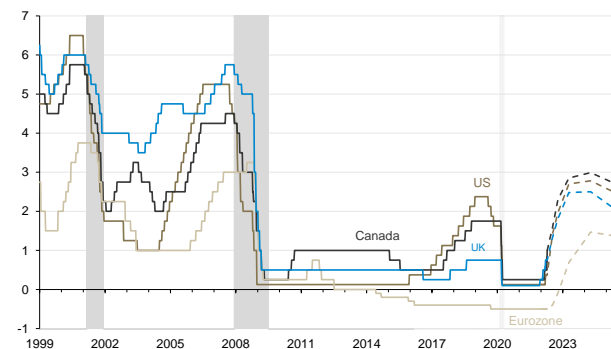
GDP-weighted averages; data to April 14, 2022; shaded regions represent periods of US recession; source: Bloomberg, Guardian Capital

The pace of hikes, however, is expected to pick up

sharply in the months ahead. Current market pricing indicates an aggressive increase in short-term rates is in the offing, as monetary policymakers look to quickly shift away from crisis-era accommodation to a stance that is more appropriate for an economy operating at capacity.

CHART 26: HEIGHTENED EXPECTATIONS

Central bank policy interest rates
(percent)



Data to April 14, 2022; dashed lines are overnight index swap-implied policy rates; shaded regions represent periods of US recession; source: Bloomberg, Guardian Capital

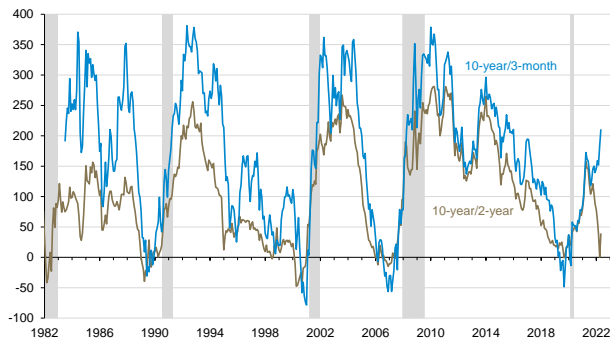
It is undeniable that “zero interest rate policies” are no longer warranted, given the current environment and outlook, but the projected rapid move toward “neutral” (the theoretical point at which policy is neither accommodative nor restrictive) is raising concerns that the cure for inflation may prove worse than the disease with respect to economic growth.

After all, central banks have historically struggled to calibrate policy such that financial conditions do not tighten too much, too quickly — with the exception of the exogenous shock of the pandemic, every downturn in the modern era can be traced, in part, to such a monetary policy error.

Markets are already hinting at the prospect that history will repeat itself. For example, on April 1, 2022, the two-year US Treasury note yield rose above the 10-year yield, a classic recession indicator that points to market views that central banks have gone too far and threaten to choke off credit growth, leading to a downturn that will require cuts. And this, before the aggressive tightening campaign has even gotten underway (hence why the gap between 10-year and 3-month yields remains steep, not corroborating the signal).

CHART 27: MIXED SIGNALS

US Treasury yield curves (basis points)



Data to April 15, 2022; shaded region represents periods of US recession;
source: Bloomberg; Guardian Capital

Mitigating factors

This highlights the difficulty of the task that central banks have ahead of them: they need to maintain credibility that they will take the necessary steps to keep expectations for price growth anchored (and thus prevent a demand-destroying inflationary spiral) while not providing too much of a drag on growth amid a still risk-laden outlook.

Thankfully, there is reason to anticipate that the pressure on central banks may well ease in the near term, potentially reducing the impetus for policy to adjust as aggressively as currently assumed.

For starters, there are positive developments for the beleaguered supply-side of the global economy.

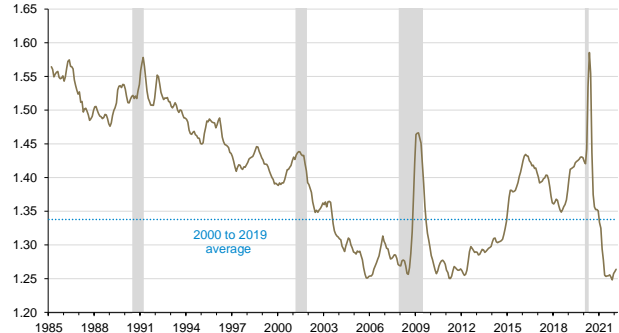
There are nascent signs that supply chain pressures are easing as businesses have expanded operations, ramped up production and refined logistics processes.

As a result, production is catching up after two years of lagging behind and sharply pared inventories are starting to be replenished.

For example, the ratio of manufacturing and trade inventories to sales in the US, while well below pre-crisis levels, has started to tick higher, with some areas (such as household durable goods) seeing more rebalancing than others (autos).

CHART 28: INVENTORY INFLECTION

Total business inventory to sales ratio, US (ratio, three-month moving average)

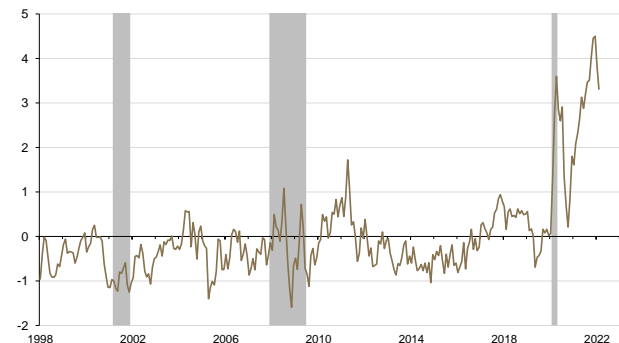


Data to February 2022; shaded regions represent periods of US recession;
source: Bloomberg; Guardian Capital

More broadly, a gauge of global supply chain pressures from the Federal Reserve Bank of New York⁷ has declined this year from its all-time highs reflecting a widespread improvement among its components indicators, a sign of easing supply constraints that have restrained activity.

CHART 29: THAW IN THE SUPPLY PIPELINE

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



Data to February 2022; shaded regions represent periods of US recession;
source: Federal Reserve Bank of New York; Bloomberg; Guardian Capital

While the lockdowns in China and Russian sanctions stand to hinder this progress, the fact that shipping costs have continued to decline in recent weeks provides some solace that kinks in the supply chain are getting smoothed out.

CHART 30: SHIPPING'S TIDE IS TURNING

Drewry world container index⁸
(thousands of US dollars per 40-foot container)

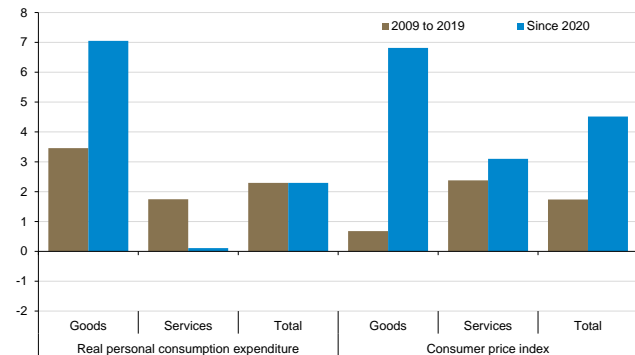


Data to April 22, 2022; shaded region represents a period of US recession; source: Bloomberg; Guardian Capital

As well, an anticipated moderation in what has been persistently robust demand for goods in favour of previously restricted services would lessen pressure on supplies while also shifting emphasis on services that have seen more modest price pressures.

CHART 31: A GREAT DIVIDE

Real consumer spending & inflation, US
(annualized percent change)

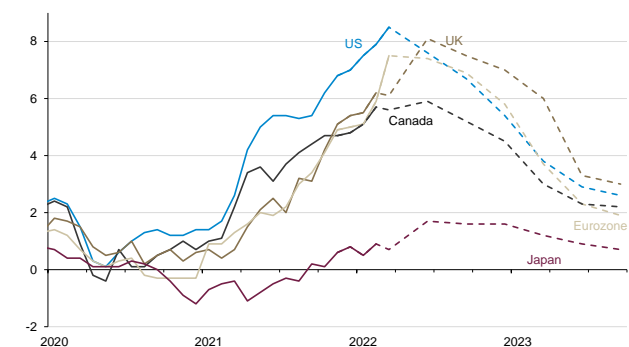


Data to February 2022; shaded regions represent periods of US recession; source: Bloomberg; Guardian Capital

Add in the fading base effects and the likelihood remains that inflation will peak in the near term and, though the latest commodity price shocks could keep it elevated longer, it should still moderate toward rates more consistent with central bank inflation targets next year. Even nascent evidence of such a moderation taking place in the coming months will be welcomed with open arms by policymakers.

CHART 32: WHAT GOES UP

Consumer price inflation
(year-over-year percent change)



Data to March 2022; dashed lines are Bloomberg consensus forecasts as at April 14, 2022; source: Bloomberg; Guardian Capital

Nattering nabobs of negativism

While this suggests that there could well be the potential for more modest rate increases than are currently priced in, it is important to recognize that even if rates rise in a manner consistent with current market pricing, it is unlikely to be sufficient by itself to tip the economy into recession.

As it stands, despite the increasing negativity and abundance of risks, the outlook is far from being dour. Growth is highly likely to slow from the rapid recovery rate recorded last year, but it is still on track to be above previous trend rates — and that is a far cry from an outright contraction.

As well, recessions typically come about due to the presence of significant financial imbalances and excesses — in these scenarios, central bank-induced increases in costs of capital make overextended financial positions untenable and force an unwind that creates negative spillovers.

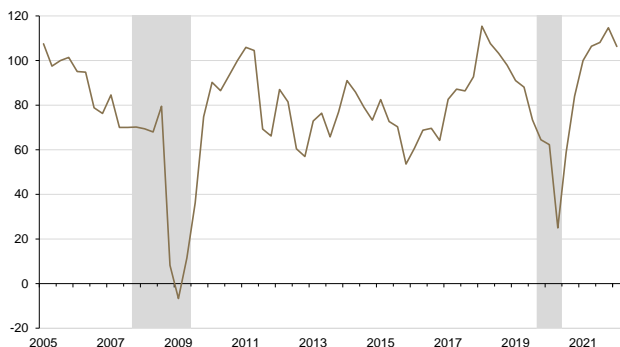
There are scarce signs of such imbalances as household balance sheets are currently in great shape and businesses, in aggregate, are on solid footing as well.

Rising interest rates may crimp activity among the more rate-sensitive sectors of the economy (such as housing) but the fact that real rates are still deeply negative does not point to a material drop-off.

Consumer spending is likely to continue to be an engine for growth in the months ahead, while surveys point to businesses increasing their capital spending at a fairly healthy pace as they look to further enhance productive capacity.

CHART 33: WHAT A CAPITAL IDEA

US CEO economic outlook capital spending plan index⁹ (index)



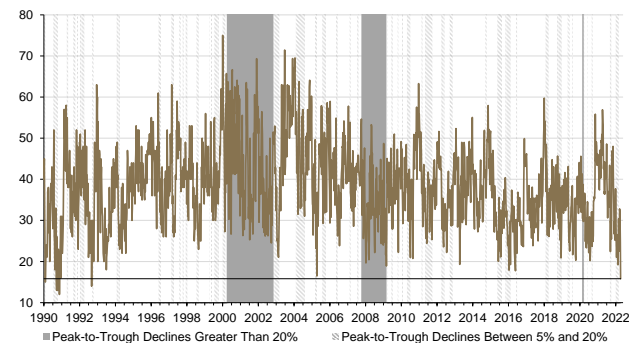
Data to Q1 2022; shaded regions represent periods of US recession; source: Business Roundtable; Bloomberg; Guardian Capital

With all this in mind, it seems that concerns of an imminent recession are overblown — while a downturn is not impossible, it appears unlikely absent an escalation in risks or added shock (which is more or less unknowable until it hits).

Perhaps the best example of the excessive pessimism is in financial markets. A recent survey from the American Association of Individual Investors¹⁰ showed that just 15.8% of respondents hold a bullish outlook on the market for the coming six months. That is the lowest share since September 1992, lower than amid the bursting of the Tech Bubble at the turn of the millennium, the financial crisis in 2008 and the onset of the pandemic.

CHART 34: BULLS ON THE RUN

AAll investor sentiment survey bulls (percent)

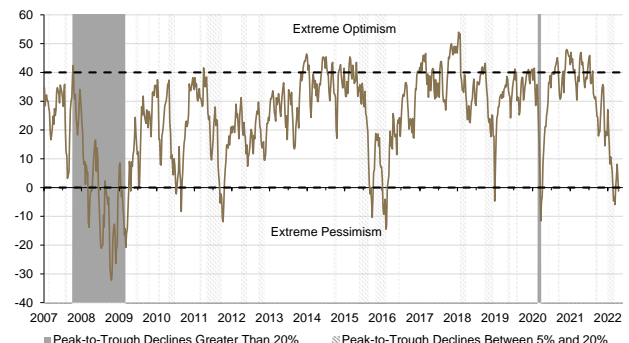


Data to April 14, 2022; source: American Association of Individual Investors; Bloomberg; Guardian Capital

Sentiment among professional investors is similarly low with the same Investors Intelligence survey showing there are more bears than bulls, a condition typically only found at the depths of market corrections.

CHART 35: DOWN IN THE DUMPS

Investors Intelligence bull-bear differential (percentage points)



Data to April 19, 2022; source: Investors Intelligence; Ned Davis Research; Bloomberg; Guardian Capital

A solid foundation

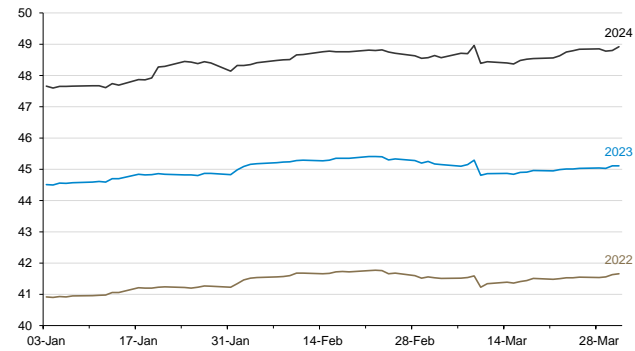
Interestingly, while sentiment is downbeat and growth expectations are waning, equity market fundamentals have actually been improving.

Corporate earnings have remained strong despite all the uncertainty. And, while economic forecasts have been cut, profit estimates have actually continued to grind higher.

Year-to-date, consensus forecasts for earnings in the MSCI All Country World Index¹¹ have been revised up by roughly 2% per year through 2024, to an annual average growth rate of 9% per year.

CHART 36: EARNING THEIR KEEP

Consensus calendar year earnings per share, MSCI ACWI* (US dollars)



*MSCI ACWI = MSCI All Country World Index; data to March 31, 2022; source: Bloomberg, Guardian Capital

This resiliency has been underpinned by strength in demand that has allowed companies to fully pass rising costs through to consumers via higher prices. Rising costs of labour, capital, shipping and raw materials have not compressed profit margins overall — inflation has actually given profits a lift.

Expectations are that overall profit margins will be able to continue to rise further — though this may prove challenging. Even if there is some compression, however, strong sales volumes and rising prices will still be supportive for solid earnings.

CHART 37: NO ERRORS IN MARGINS

Consensus 12-month forward profit margins, MSCI ACWI* (year-over-year percent change)

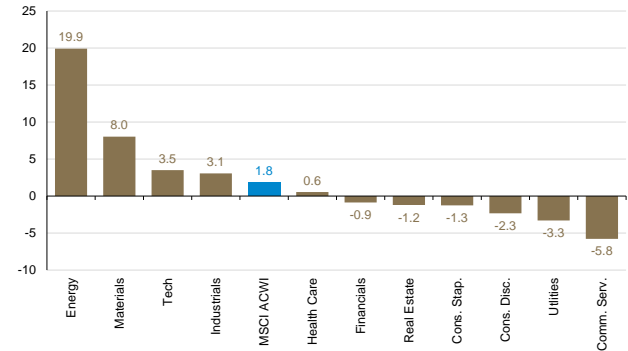


*MSCI ACWI = MSCI All-World Country Index; data to March 31, 2022; shaded regions represent periods of US recession; source: Bloomberg, Guardian Capital

On an industry basis, natural resource industries have seen the biggest upgrade of earnings momentum as higher commodity prices flow directly to the bottom line; consumer-oriented and rate-sensitive sectors have moved in the other direction.

CHART 38: SECTOR ROTATION

Consensus 2022 earnings per share revisions, MSCI ACWI (percent)

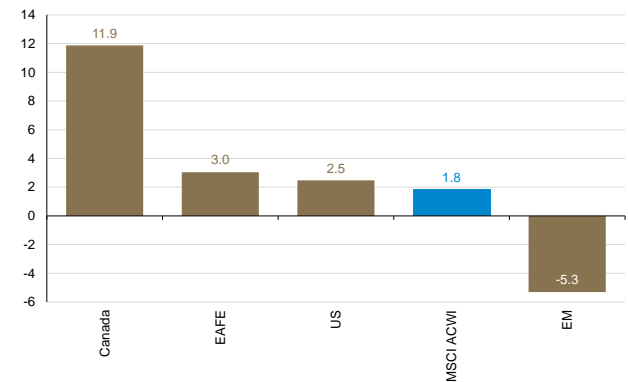


Data to March 31, 2022; source: Bloomberg, Guardian Capital

Regionally, momentum has improved most sharply in Canada, where the domestic stock market's heavy natural resources exposures have benefitted from the rise in commodity prices; EM is at the other end of the spectrum weighed down by adverse developments in China and EMEA.

CHART 39: REGIONAL DIFFERENCES

Consensus 2022 earnings per share revisions by region (percent)



Data to March 31, 2022; source: Bloomberg, Guardian Capital

Taking stock

The market environment has been difficult year-to-date, but that earnings have proven resilient to this point means that the weakness has strictly been a function of valuation multiple compression rather than a more concerning fundamental weakness.

The forward price-to-earnings ratio for the broad global stock market benchmark¹¹ has continued its decline from the crisis peaks, moving back within the historical “normal” range.

CHART 40: TIME TO DECOMPRESS?

Forward price-to-earnings ratio, MSCI ACWI (ratio)

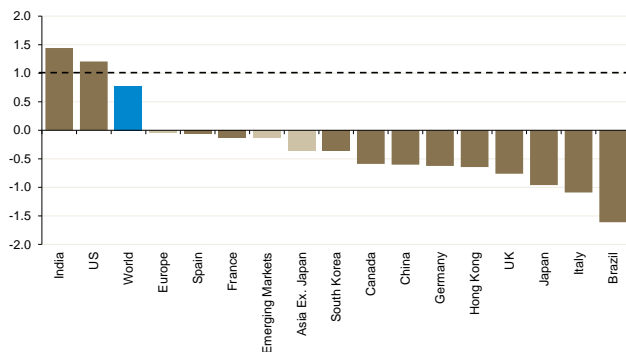


Data to April 15, 2022; shaded regions represent periods of US recession; dashed line is average; solid black lines are +/- 1 standard deviation from average; source: Bloomberg, Guardian Capital

Regionally, the market selloff, combined with the outlook, has created pockets of deep value relative to long-term averages, particularly among EM.

CHART 41: VALUE PROPOSITION

Forward price-to-earnings ratio (standard deviations from 15-year average)



Data to April 15, 2022; source: Bloomberg, Guardian Capital

The rapid rise in interest rates has been a notable driver of this compression — higher market yields mean that the present value of future cash flows is lower, reducing valuations, particularly for more growth-oriented equities — and the expectation for further upward pressure on rates will constrain the potential for this trend to reverse course.

With that said, the increase in the embedded risk premium in recent months has also played a role and it is here that there is scope for a retracement.

Any improvement in investor sentiment from its current excessively depressed levels could turn around performance in fairly short order — and

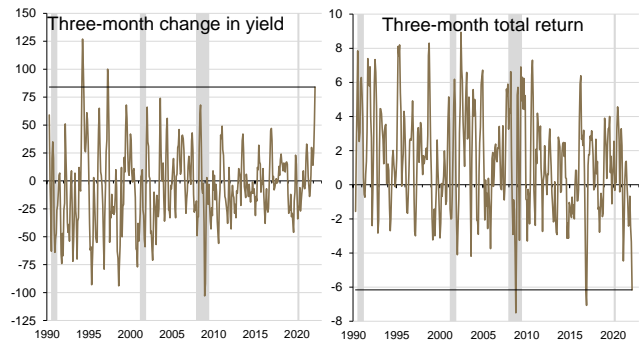
there are many potential catalysts, though timing when moods may swing is inherently difficult.

Bonds bail

Bond markets have come under considerable pressure against outsized increases in market interest rates — the surge in bond yields year-to-date represents a two standard deviation event that has resulted in among the worst three-month stretches for global bond markets in the last three decades.

CHART 42: TIME TO DECOMPRESS?

Bloomberg global aggregate bond index¹² (basis points) (percent)

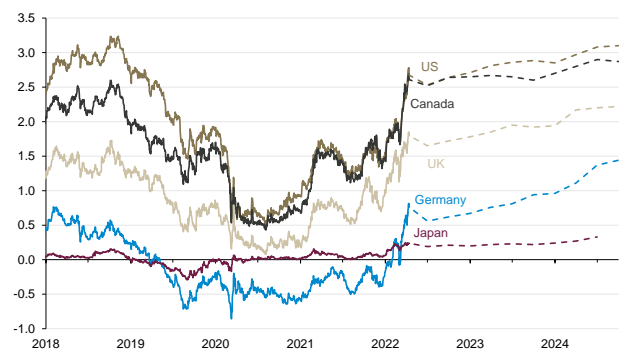


Data to March 31, 2022; shaded regions represent periods of US recession; source: Bloomberg, Guardian Capital

While a lot of damage has been done, the baseline outlook would suggest that the path of least resistance for yields is higher still for the near term.

CHART 43: PATH OF LEAST RESISTANCE

10-year sovereign bond yield (percent)



Data to April 14, 2022; dashed lines are consensus forecasts as at April 14, 2022; source: Bloomberg, Guardian Capital

The peak in yields, however, is much closer now than it was three months ago, which suggests that the further downside is somewhat limited.

As well, with so much monetary tightening already priced in, it would seem that the balance of risks increasingly tilts in favour of yields potentially moving to the downside — indications of a more tepid than expected response from central banks would see rates retrace some of the increases, particularly at the front end of the curve.

Still, the exposure to interest rate risk is not particularly compelling at the moment — even with the rise in yields, the coupon does not exactly offer significant return prospects (particularly on an inflation-adjusted basis) nor much by way of protection from further rate increases.

CHART 44: ADDED PADDING

Ratio of yield-to-duration for, Bloomberg global bond index (basis points)



*Rise in yields required to wipe out 1-year total return; data to April 14, 2022; shaded regions represent periods of US recession; source: Bloomberg, Guardian Capital

Exposure to credit risk, particularly higher-quality issues, however, would appear to offer better relative prospects within fixed income.

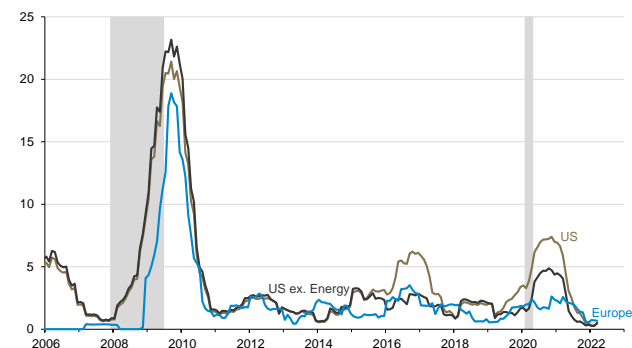
A backdrop of firm inflation, underpinned by still solid demand, is constructive for credit since companies tend to be able to pass any cost increases onto customers via higher prices, effectively insulating corporate margins and supporting profitability.

As well, fundamentals in corporate credit have improved over the last two years (in contrast to governments, where increased debt burdens have eroded the health of balance sheets), with leverage ratios and interest burden relatively low — the latter a product of firms taking advantage of the ultra-low rates on offer in the market to refinance.

Credit quality remains strong as a result and default rates globally are historically low.

CHART 45: NO CREDIT CONCERNS

High Yield bond par-weighted default rate (percent)



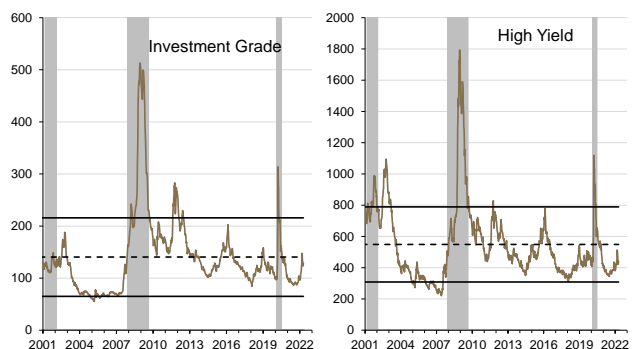
Data to March 2022; shaded regions represent periods of US recession; source: Bank of America Merrill Lynch, Guardian Capital

While risks have increased of late, the still buoyant earnings outlook and good fundamentals suggest that credit events should continue to remain sparse in the absence of new shocks to the system.

That would suggest that there is potential for credit spreads — which have widened this year amid the increased risk aversion in the marketplace — to narrow as investor sentiment improves from its current depressed levels, providing added performance upside on top of the relatively larger coupons on offer that can offset the impact of rising market rates.

CHART 46: COVER THE SPREAD

Global option-adjusted bond yield spreads (basis points)



Data to April 14, 2022; shaded regions are periods of US recession; dashed line is average; black lines are +/- 1 standard deviation; source: Bloomberg, Guardian Capital

Riskless abandoned

There is a seemingly ever-expanding laundry list of uncertainties at the moment, but underlying macro momentum does remain positive and economic growth is on track to hold above pre-crisis trends. A global recession continues to be a fairly low probability event this year and valuations for risk assets have come well off their earlier extremes.

Accordingly, when risks subside and the outlook becomes clearer, the focus should be able to shift back to fundamentals of market performance, which continue to be generally constructive, supporting a reversal of earlier weakness as excessively pessimistic investor sentiment improves.

Fixed income markets are likely to remain under pressure as central banks take more steps to scale back their abundant policy accommodation and rates find that their path of least resistance is higher. A lot has been priced in, however, and the peak is closer now, which means that the balance of risks may be turning. As well, the higher level of rates makes valuations look more attractive as does the widening of credit spreads — there may be opportunities ahead for the asset class.

For the here and now, despite the heightened uncertainty clouding the outlook, the prospect of sustained growth and elevated inflation would suggest that maintaining a bias toward risk assets continues to make sense.

The elevated risks currently, and the likelihood of heightened volatility persisting, however, suggest some caution is warranted. As such, a focus on exposures to high-quality assets, rather than more cyclically sensitive ones seems prudent, for example: stocks of companies that are dominant players in global industries, with a sustainable advantage over competitors allowing them to exert pricing power and maintain profit margins; or within fixed income, high-quality credits and those more insulated to interest rate movements.

Market Returns at March 31, 2022 All returns in CAD.

CANADIAN EQUITIES

INDEX RETURNS (%)	1 Mo	3 Mos	YTD	1 Yr	5 Yrs	10 Yrs
S&P/TSX Composite	4.0	3.8	3.8	20.2	10.3	9.1
S&P/TSX 60	3.8	3.5	3.5	21.8	11.1	9.8
S&P/TSX Completion	4.6	5.2	5.2	14.7	8.0	6.9
S&P/TSX SmallCap	3.9	8.4	8.4	18.8	7.2	5.3
S&P/TSX Composite High Dividend	3.9	11.6	11.6	32.7	10.7	8.9
S&P/TSX Composite Dividend	4.2	8.1	8.1	26.6	10.6	9.8

S&P/TSX SECTOR RETURNS (%)

Communication Services	4.9	8.8	8.8	26.8	9.9	11.4
Consumer Discretionary	-1.7	-7.7	-7.7	-2.8	7.3	12.6
Consumer Staples	10.1	5.4	5.4	25.7	10.5	15.7
Energy	7.0	28.7	28.7	59.3	6.6	3.9
Financials	-0.7	2.2	2.2	22.4	11.3	12.4
Health Care	3.4	-8.5	-8.5	-46.7	-8.7	-12.9
Industrials	8.2	3.9	3.9	13.5	14.5	15.5
Information Technology	-1.2	-35.5	-35.5	-22.7	22.9	19.8
Materials	10.1	20.1	20.1	34.1	11.5	2.9
Real Estate	2.0	-4.7	-4.7	19.1	9.7	10.8
Utilities	6.9	5.0	5.0	13.3	11.8	9.3

US EQUITIES

INDEX RETURNS (%)	1 Mo	3 Mos	YTD	1 Yr	5 Yrs	10 Yrs
S&P 500	2.1	-5.7	-5.7	14.9	14.5	17.2
Dow Jones Industrial Average	0.9	-5.2	-5.2	6.4	11.9	15.3
NASDAQ	1.8	-10.1	-10.1	6.7	17.7	19.1
Russell 1000	1.8	-6.2	-6.2	12.6	14.3	17.1
Russell 2000	-0.3	-8.6	-8.6	-6.4	8.3	13.5
Russell 3000	1.7	-6.3	-6.3	11.2	13.9	16.9
Russell 1000 Growth	2.3	-10.1	-10.1	14.3	19.3	19.7
Russell 1000 Value	1.3	-1.8	-1.8	11.0	8.9	14.2

S&P 500 SECTOR RETURNS (%)

Communication Services	-0.6	-12.9	-12.9	-1.5	8.2	12.4
Consumer Discretionary	3.3	-10.0	-10.0	9.1	15.7	19.3
Consumer Staples	0.3	-2.1	-2.1	15.4	8.8	14.0
Energy	7.3	37.5	37.5	63.3	5.4	6.5
Financials	-1.7	-2.6	-2.6	14.0	10.9	16.4
Health Care	4.0	-3.7	-3.7	18.4	13.6	18.5
Industrials	1.8	-3.5	-3.5	5.5	9.8	15.3
Information Technology	1.9	-9.4	-9.4	20.1	25.2	23.3
Materials	4.5	-3.5	-3.5	13.2	11.8	13.9
Real Estate	6.2	-7.3	-7.3	25.0	11.2	N/A
Utilities	8.7	3.6	3.6	19.2	10.0	14.3

INTERNATIONAL EQUITIES

INDEX RETURNS (%)	1 Mo	3 Mos	YTD	1 Yr	5 Yrs	10 Yrs
MSCI World Index (Net, C\$)	1.2	-6.2	-6.2	9.4	11.0	13.4
MSCI EAFE Index (Net, C\$)	-0.9	-7.0	-7.0	0.5	5.4	8.7
MSCI ACWI (C\$)	0.6	-6.4	-6.4	6.6	10.2	12.5
MSCI France (C\$)	-2.2	-9.7	-9.7	3.9	7.0	10.0
MSCI Germany (C\$)	-4.3	-13.9	-13.9	-12.5	1.2	7.0
MSCI Japan (C\$)	-2.0	-7.6	-7.6	-7.1	4.7	8.9
MSCI UK (C\$)	-1.4	0.7	0.7	12.9	4.2	6.8
S&P/IFC Investable (Emerging Markets)	-3.4	-7.9	-7.9	-9.5	5.1	6.6
MSCI EAFE Growth (Gross, C\$)	-0.8	-12.8	-12.8	-1.8	7.9	10.3
MSCI EAFE Value (Gross, C\$)	-0.7	-0.6	-0.6	3.6	3.5	7.9

INTERNATIONAL EQUITIES

MSCI EAFE SECTOR RETURNS (%)	1 Mo	3 Mos	YTD	1 Yr	5 Yrs	10 Yrs
Communication Services	-1.3	-2.8	-2.8	-11.3	0.8	6.9
Consumer Discretionary	-5.8	-14.5	-14.5	-10.1	5.2	9.4
Consumer Staples	-4.1	-8.7	-8.7	1.1	3.4	8.5
Energy	3.4	15.7	15.7	29.2	3.9	3.6
Financials	0.9	-2.2	-2.2	4.5	2.6	7.9
Health Care	2.1	-4.8	-4.8	8.2	8.1	11.9
Industrials	-1.2	-11.7	-11.7	-4.4	6.0	9.5
Information Technology	-0.2	-17.1	-17.1	-1.6	12.1	13.1
Materials	2.0	2.2	2.2	7.7	10.2	8.4
Real Estate	-0.8	-3.8	-3.8	-1.8	1.0	N/A
Utilities	-4.9	-5.2	-5.2	-2.3	6.5	7.5

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

Market Returns at March 31, 2022 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	0.1	0.1	0.1	0.3	0.9	0.9
FTSE Canada Short Term Overall Bond	-1.9	-3.0	-3.0	-3.3	1.1	1.7
FTSE Canada Mid Term Overall Bond	-3.9	-6.8	-6.8	-5.0	1.4	2.8
FTSE Canada Long Term Overall Bond	-3.6	-11.7	-11.7	-5.6	2.3	3.6
FTSE Canada Universe Bond	-3.0	-7.0	-7.0	-4.5	1.6	2.5
FTSE Canada High Yield Overall Bond	-1.6	-3.1	-3.1	0.6	5.3	5.9
FTSE Canada Real Return Bond Overall	-2.5	-9.3	-9.3	-0.4	2.8	2.1

SECTOR RETURNS (%)

FTSE Canada Federal Bond	-3.0	-5.6	-5.6	-4.5	0.8	1.6
FTSE Canada Provincial Bond	-3.3	-8.6	-8.6	-4.7	1.9	3.0
FTSE Canada All Corporate Bond	-2.6	-6.4	-6.4	-4.4	2.2	3.2

GLOBAL FIXED INCOME

INDEX RETURNS (%)	1 Mo	3 Mos	YTD	1 Yr	5 Yrs	10 Yrs
FTSE World Government Bond	-4.9	-7.5	-7.5	-8.3	0.0	2.6

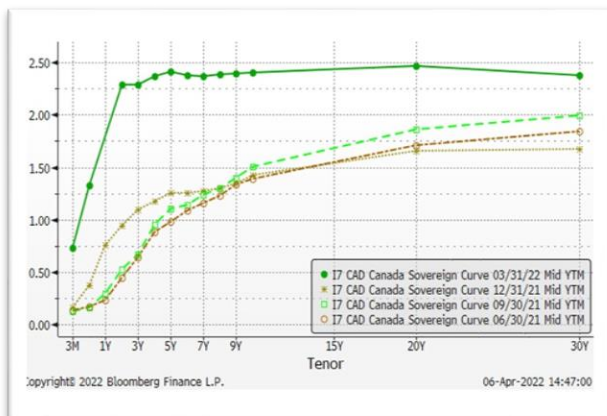
COMMODITY

	1 Mo	3 Mos	YTD	1 Yr	5 Yrs	10 Yrs
Bloomberg WTI Cushing Crude Oil Spot Price	3.2	28.8	28.8	68.5	13.2	2.0
Bloomberg European Dated Brent BFOE Price	4.1	36.1	36.1	69.7	13.7	0.7
Edmonton Crude Oil Syncrude Sweet Blend FOB Spot	7.4	45.1	45.1	71.2	12.6	3.1
S&P GSCI Nat Gas Index Spot	26.2	49.6	49.6	115.0	10.6	12.7
S&P GSCI Copper Index Spot	3.1	5.3	5.3	17.3	10.8	4.4
S&P GSCI Gold Index Spot	1.2	5.7	5.7	13.2	7.9	3.9

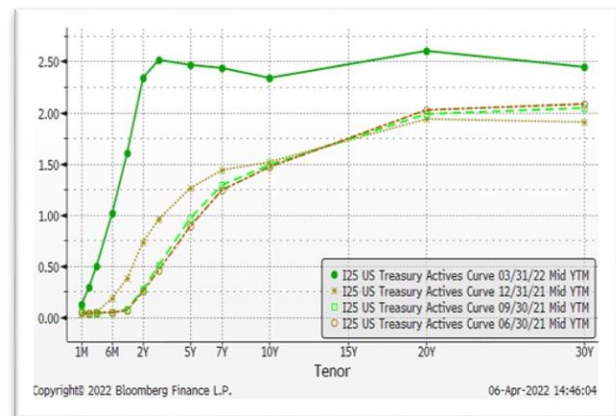
CURRENCY

	1 Mo	3 Mos	YTD	1 Yr	5 Yrs	10 Yrs
CAD/USD (% chg)	-1.5	-1.1	-1.1	-0.6	-1.3	2.3
CAD/Yen (% chg)	-6.6	-6.2	-6.2	-9.5	-3.0	-1.6
CAD/GBP (% chg)	-3.4	-3.9	-3.9	-5.2	-0.3	0.3
CAD/Euro (% chg)	-2.4	-3.3	-3.3	-5.9	-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

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NOTES

¹ Oxford Covid-19 Government Response Tracker (OxCGRT) collects systematic information on policy measures that governments have taken to tackle COVID-19 and are scored into a suite of policy indices, and reported in the COVID-19 Stringency Index. This index is a composite measure based on nine response indicators including school closures, workplace closures, and travel bans, rescaled to a value from 0 to 100 (100 = strictest). Source: University of Oxford, COVID-19 Government Response Tracker <https://www.bsg.ox.ac.uk/research/research-projects/covid-19-government-response-tracker>

² The Purchasing Managers Index (PMI) is a measure of the prevailing direction of economic trends in manufacturing; a monthly survey of purchasing managers to determine whether business conditions are improving, unchanged, or deteriorating compared to the previous survey. A level above 50 represents improving conditions, while a level below 50 represents deteriorating conditions, and a level of 50 represents no change from the previous survey period.

³ Caldara, Dario and Matteo Iacoviello (2022), "Measuring Geopolitical Risk," American Economic Review, April, 112(4), pp.1194-1225, Data from <https://www.matteoiacoviello.com/gpr.htm>, April 8, 2022.

⁴ The FAO Food Price Index (FFPI) is a measure of the monthly change in international prices of a basket of food commodities. It consists of the average of five commodity group price indices weighted by the average export shares of each of the groups over 2014-2016. <https://www.fao.org/worldfoodsituation/foodpricesindex/en/>, April 8, 2022.

⁵ 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.

⁶ 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.

⁷ The Global Supply Chain Pressure Index is composite of 27 variables designed to provide a more comprehensive summary of potential disruptions affecting global supply chains. The index is normalized such that a zero indicates that the index is at its average value with positive values representing how many standard deviations the index is above this average value (and negative values representing the opposite).

⁸ The Drewry World Container Index consists of eight route-specific indices representing individual shipping routes and a composite index. All indices are reported in USD per 40ft Container.

⁹ CEO Economic Outlook Index, a composite index of CEO plans for capital spending and employment, and expectations for sales over the next six months.

¹⁰ The American Association of Individual Investors (AAII) is an independent nonprofit corporation formed in 1978 to assist individuals in becoming effective managers of their own assets through programs of education, information and research. <https://www.aaii.com/>

¹¹ The MSCI ACWI Index is a market capitalization weighted index of equities in both Developed and Emerging Markets.

¹² The Bloomberg Global Aggregate Bond Index is a flagship measure of global investment grade debt from twenty-four local currency markets.