GUARDIAN PARTNERS INC

Economic Outlook

Spring 2023

SUMMARY*

- The question right now is whether the increasingly pessimistic consensus forecasts, which have been subject to significant revisions over the last few years, will prove correct this time or if there is still scope for more upside surprises in the days ahead.

- And, while there are still plenty of risks to the outlook — and the last few years have shown that new shocks can emerge rapidly and unexpectedly — it would appear that the underpinnings of the global economy, at the moment, would support the possibility for continued outperformance.

- Now, to be clear, the base-case is not for anything noteworthy — the days of markedly above-potential growth rates fueled by the pandemic recovery are over and headwinds suggest growth that is more consistent with pre-COVID trends would likely serve as a ceiling for the months ahead.

- But even fairly anemic, positive growth over the forecast horizon in an absolute sense is still a better relative outcome than an economic downturn that carries negative implications for households, businesses and markets.

- The moderating trend in inflation is clearly a positive from a policy perspective and the recent indications of tightening in credit conditions by banks suggest that monetary policy will have to do less heavy lifting that previously assumed, with the expected policy path now expected to be shorter and to a lower terminal point than assumed just a few months ago.

- Guidance from central bankers is likely to continue to skew toward the hawkish side of the spectrum even as they move to the sidelines, which puts them at odds with markets that continue to anticipate that deteriorating growth prospects will lead to rate cuts before year-end.

- The lack of clarity over the outlook provides little reason to anticipate that volatility will subside in any sort of material manner in the near-term, putting added focus on managing risk exposures — but while caution is warranted, the continued indications of investor pessimism does create opportunities in equity and fixed income markets.

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More surprises in store?

Since global central banks began their vigorous and coordinated tightening campaign one year ago to combat sharply rising price pressures (which were exacerbated by persistent kinks in the supply chain tied to China's steadfast commitment to its "Zero-COVID" policy" and the surge in commodity prices following Russia's invasion of Ukraine), the debate has not so much been about whether a recession can be avoided as much as whether the imminent downturn will be "mild" or "severe."

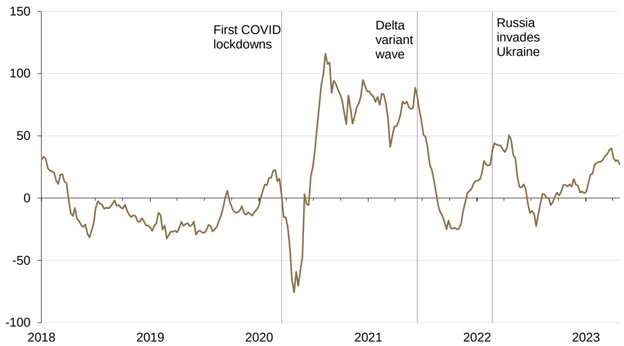
Global economic forecasts, and with them the outlooks for corporate earnings, were persistently ratcheted down on the assumption that the now materially higher interest rate environment, which was decimating bonds and culling equity valuation multiples, would compound the impact of high inflation and quickly choke off real economic activity.

As has been the case since the onset of the pandemic, however, the global economy has persistently outperformed these increasingly dour expectations, with momentum proving far more resilient than forecasters have assumed.

Surprises in the economic dataflow have reliably been to the upside since the onset of the pandemic. That is particularly the case in the aftermath of risk events that caused material forecast downgrades.

CHART 1: EXCEEDING (LOWERED) EXPECTATIONS

Economic surprise index[1], World
(diffusion index; >0 denotes "better than expected" dataflow)



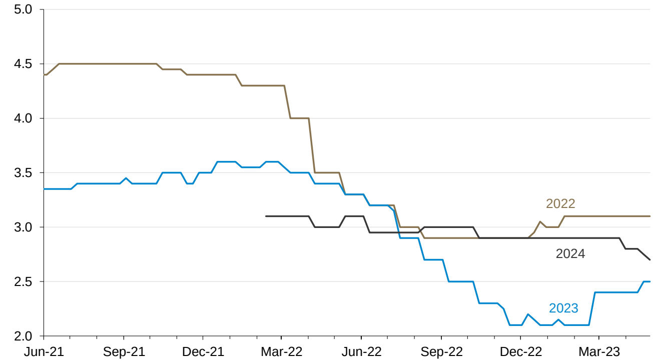
Source: Guardian Capital based on data from Bloomberg to April 28, 2023

Despite the durability of this general trend, however, markets remain perpetually unconvinced that it can be sustained — the indications of underlying strength just represent a downturn delayed.

As a result, while the data are forcing near-term forecasts, that were previously slashed, to be revised higher to reflect the solid handoff from the current economic reality, the upgrades are coming at the expense of future projected growth, with the start of a recession just kicked into 2024.

CHART 2: PAY IT FORWARD

Consensus real GDP growth forecasts, World
(percent)



Source: Guardian Capital based on data from Bloomberg to April 28, 2023

The question then becomes whether the consensus forecasts, which have been subject to significant revisions over the last few years, will prove correct this time or if there is still scope for more upside surprises in the days ahead.

And, while there are still plenty of risks to the outlook, and the last few years have shown that new shocks can emerge rapidly and unexpectedly, it would appear that the underpinnings of the global economy, at the moment, would support the possibility for continued outperformance.

Now, to be clear, the base case is not for anything particularly noteworthy — the days of markedly above-potential growth rates fueled by the pandemic recovery are over. Instead, headwinds suggest that growth that is more consistent with pre-COVID trends could act as a ceiling for the months ahead.

That said, even fairly anemic but positive growth over the forecast horizon in an absolute sense is still a better relative outcome than an economic downturn that carries negative implications for households, businesses and markets.

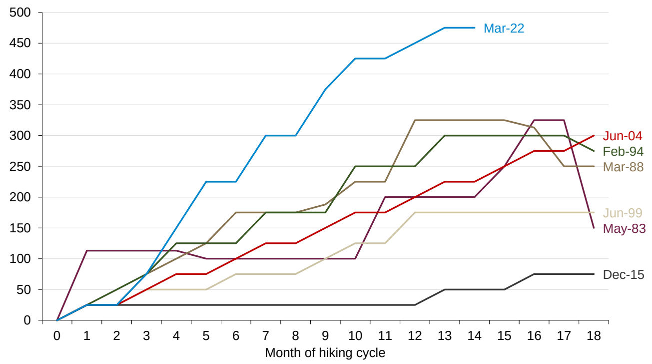
Tightening up

The primary reason for the expectation that economic conditions are broadly slated to worsen is tied to monetary policy.

The past year has seen central banks embark on a tightening campaign that has been a standout versus history in terms of the speed and magnitude with which rates have gone up.

CHART 3: HIGHER, FURTHER, FASTER

Federal Reserve policy tightening cycles
(basis point change)

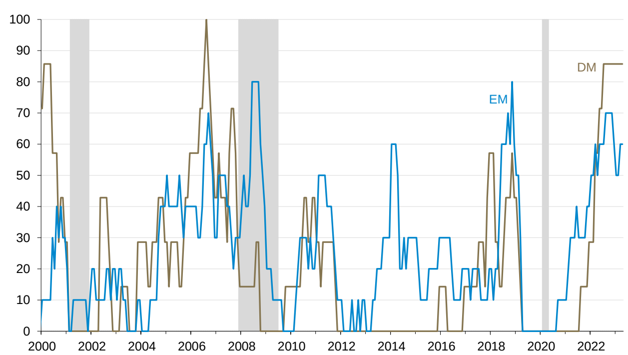


Source: Guardian Capital based on data from Bloomberg to April 2023

Moreover, it is not just that rates went up, but that they did so by similar degrees across the globe as policymakers hiked together in lockstep.

CHART 4: MOVING AS ONE

Central banks' policy rate direction, G20
(6-month rolling percent of G20 central banks)

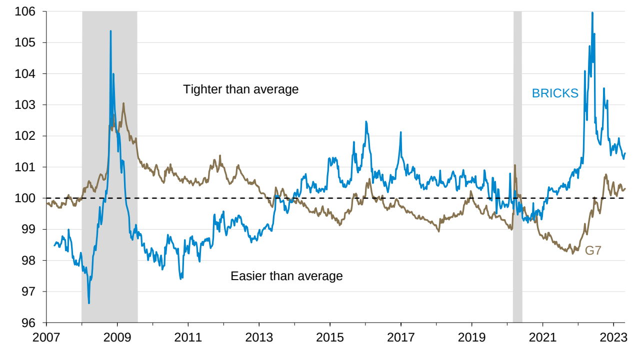


Source: Guardian Capital based on data from Bloomberg and the Bank for International Settlements[2] to April 28, 2023; shaded regions represent periods of US recession

As a result, there has been a sharp tightening of financial conditions over the last year, as markets processed higher rates and embedded premia on risk assets rose, with Emerging Markets (EM) economies facing the added headwind of a strong US dollar.

CHART 5: RAISING THE BAR

Financial conditions indexes*
(index; long-term average = 100)



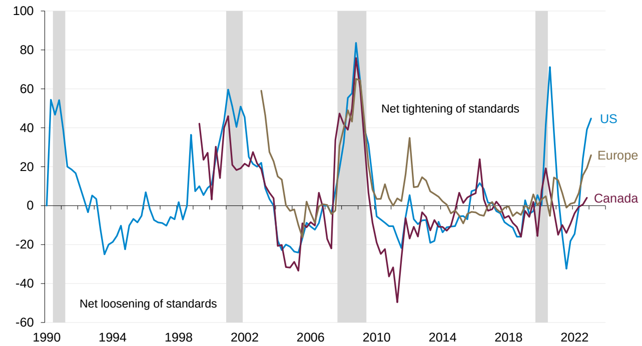
GDP-weighted average of country indexes; G7=Canada, France, Germany, Italy, Japan, UK and US; BRICKS=Brazil, Russia, India, China, South Korea and South Africa; shaded regions represent periods of US recession; source: Guardian Capital based on data from Bloomberg to April 28, 2023

Compounding the surge in costs of capital, there are growing signs that the availability of credit, the lifeblood of the economy, is becoming scarcer.

Surveys of lenders are indicating that banks, globally, are becoming pickier with respect to whom they provide credit, raising the standards for qualifying for loans in the name of protecting their books, as funding costs grind higher and concerns over the outlook intensify.

CHART 6: HOLDING TO A HIGHER STANDARD

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 Q4 2022

The flare-up of bank stress that saw three regional US banks fail in March, and a once-venerable-but-long-struggling Swiss financial institution absorbed by a national competitor and, consequently, added focus from investors, are not going to help matters on this front in the months to come.

As such, the impacts of last year's move away from the long-prevailing zero-interest rate policy are expected to become more evident as the transmission of decisions works its way through the long and variable lags into the real economy.

The protracted feedback loop clearly makes policy exceedingly difficult to calibrate and is a big reason why central banks have a poor track record of navigating "soft landings." It serves as a big reason why last year's tightening is widely expected to result in casualties in the months to come.

Mitigating circumstances

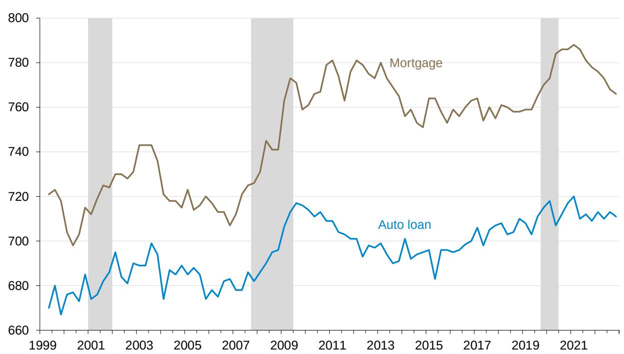
There do appear to be mitigating circumstances, however, that could stand to lessen the overall hit.

The still-lingering scars of the last financial crisis and the persistent calls for an imminent recession have kept households and businesses on comparatively high alert, and restrained risk-taking that has limited the development of significant financial excesses — and aside from exogenous shocks (such as war, natural disasters or a pandemic), it is the unwind of these financial imbalances that drive downturns.

Banks — which have more capital and less leverage than before — have kept lending standards stringent since the last credit crisis. For example, the 25th percentile credit score at loan origination now in the US is where the median was in 2007 (i.e., the distribution has shifted higher in quality).

CHART 7: SCORING HIGH

Median riskscore at loan origination, US
(score*)



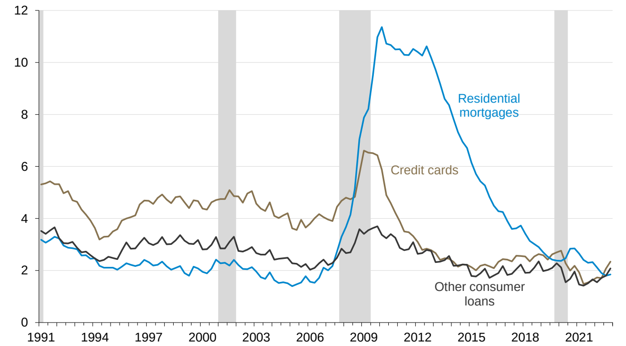
**Credit score is Equifax Riskscore 3.0[3]; mortgages include first-liens only; shaded regions represent periods of US recession; source: Guardian Capital based on data from the Federal Reserve Bank of New York to Q4 2022*

This increased assurance of borrowers' ability to meet their financial obligations has meant that the rise in rates has, so far, been taken in stride.

The latest delinquency data for the US show no notable change in the share of borrowers that are at least a month behind on their mortgage payments from its recent record lows. There has been an uptick in other consumer loan delinquencies that bears watching, but they still remain historically low.

CHART 8: STAYING ON TOP OF PAYMENTS

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

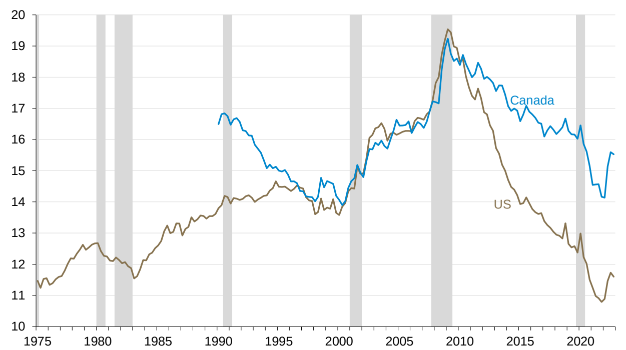


**Delinquent loans and leases are those past due thirty days or more; shaded regions represent periods of US recession; source: Guardian Capital based on data from the US Federal Reserve Board to Q4 2022*

As well, the relatively restrained availability of credit, and an aversion to borrowing even when rates were at their lows, have resulted in consumers being less reliant on debt in generations. The household debt-to-asset ratio in the US sits at levels last seen in the early 1980s (the shift in areas like Canada and Australia, however, is not as stark).

CHART 9: LESS EMPHASIS ON DEBT

Household debt-to-asset ratio*
(percent)

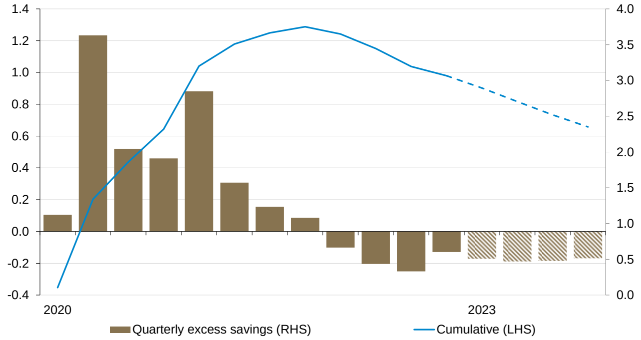


**Data made comparable following [Statistics Canada's guidelines]; shaded regions represent periods of US recession; source: Guardian Capital based on data from the US Federal Reserve Board and Statistics Canada to Q4 2022*

Add to that, the fact that consumers continue to sit on a pandemic-driven excess of savings and aggregate wealth remains near all-time highs, despite weakness in financial and housing markets at a time when the cost of living pressures are abating.

CHART 10: PLENTY OF CASH ON HAND

Excess* personal savings since 2020, G7
(trillions of US dollars)

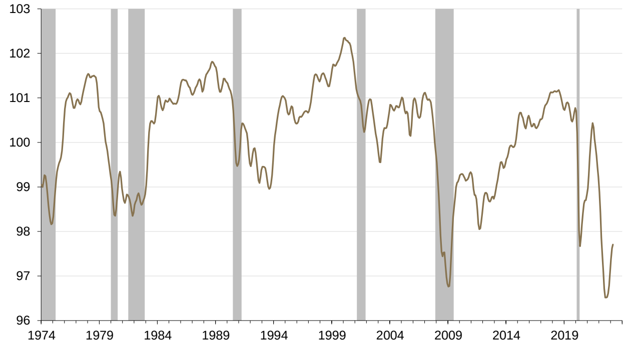


personal savings in excess of 1999 to 2019 trends; dashed line represents impact of continued spending at average recent trend rates; source: Guardian Capital based on data from the OECD[4], IMF and Bloomberg to Q4 2022

This suggests that scope remains for the consumer to continue to support overall growth — and despite the growing market pessimism on the outlook, consumer sentiment is actually on an upswing from the historically depressed levels seen last year when price pressures were most severe.

CHART 11: FEELING A BIT BETTER

Consumer confidence, OECD
(index; long-term average = 100)



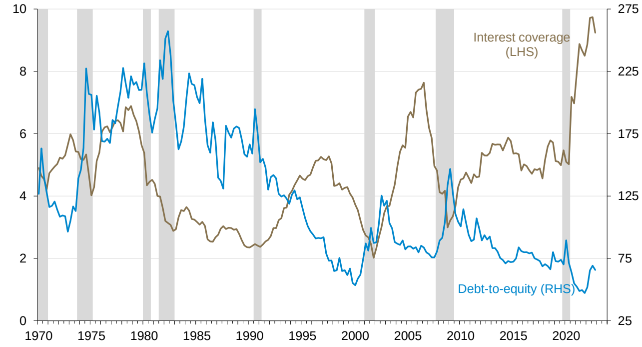
Shaded regions represent periods of US recession; source: Guardian Capital based on data from the OECD to March 2023

Consumers have consistently been the source of surprise over the last three years and there are yet convincing signs that the resiliency is set to fade.

For businesses, balance sheets similarly remain in good shape overall with low leverage, extended maturities and high-interest coverage providing a degree of insulation from the rise in costs of capital.

CHART 12: FUNDAMENTALLY SOUND

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

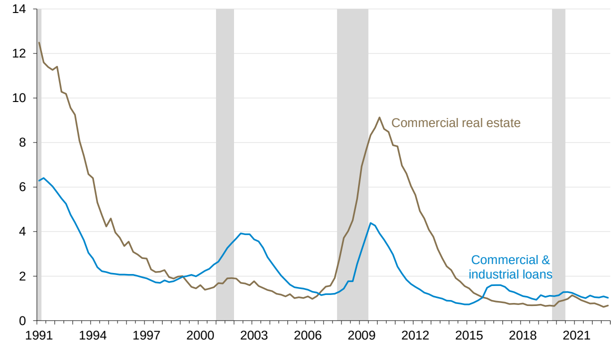


Shaded regions represent periods of US recession; source: Guardian Capital based on data from the US Federal Reserve Board to Q4 2022

And for all the concerns about the risks to highly-leveraged commercial real estate against rising costs, waning demand and declining valuations, delinquencies here, so far, remain benign. There have been a series of high-profile defaults more recently, though these appear to be more related to strategy than solvency and, in fairness, the weakness has been orderly to this point (the broader turmoil in markets in China being the exception).

CHART 13: MEETING OBLIGATIONS

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



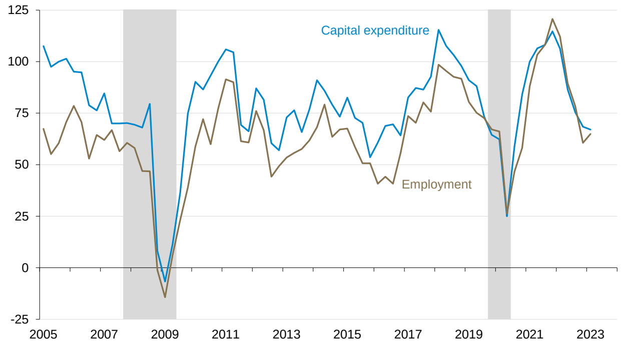
**Delinquent loans and leases are those past due thirty days or more; shaded regions represent periods of US recession; source: Guardian Capital based on data from the US Federal Reserve Board to Q4 2022*

The ability to manage existing debt for businesses, however, is not the same as being able to access new funding, which looks to become more difficult.

Capital spending expectations that were upscaled with reshoring and supply chain enhancing projects in response to the pandemic are being cut back as a result, something that will weigh on growth. That is especially likely for firms that rely heavily on free and freely available capital for their development.

CHART 14: SHRINKING EXPANSION PLANS

CEO economic outlook[5] capital spending & hiring plans, US
(index)



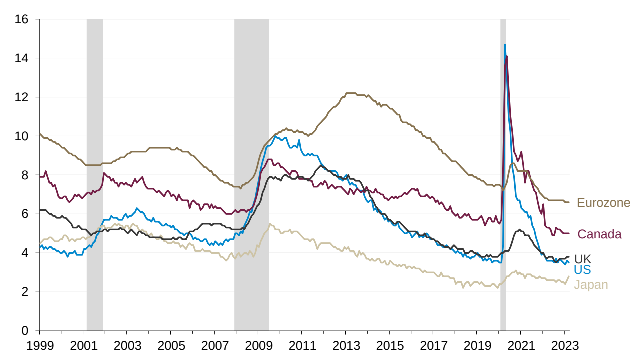
Shaded regions represent periods of US recession; source: Guardian Capital based on data from Business Roundtable and Bloomberg to Q1 2023

The more limited investment in capital, however, appears likely to factor in ongoing job market tightness as firms remain hesitant to pare headcounts amid structural shortages to keep production running — and again, demand is underpinned by continued strength in consumers, resulting in something of a virtuous cycle.

While caution may constrain new hiring, an absence of significant and broad-based layoffs will soon keep unemployment rates from deviating too far from their current, if not historical, generational lows.

CHART 15: HELP STILL WANTED

Unemployment rates
(percent)



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

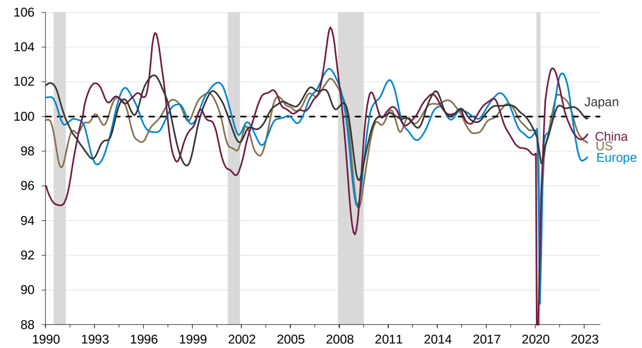
Strong job markets will continue to serve as a key support for household spending, particularly in the lower-cost services that are still recovering from the pandemic and are less reliant on credit.

A broader recovery-driven boost is likely near-term in Europe and China, as the significant headwinds that weighed on activity last year dissipate.

The counterbalance of improving momentum in these areas will help to offset an expected slowing in North America — and the note that the leading economic indicators have inflected higher as falling energy costs give a boost to Europe and the abrupt and widespread abandonment of public health restrictions drives a resumption of activity in China.

CHART 16: FOLLOW THE LEADER

Composite leading economic indicator[6]
(index; trend growth = 100)



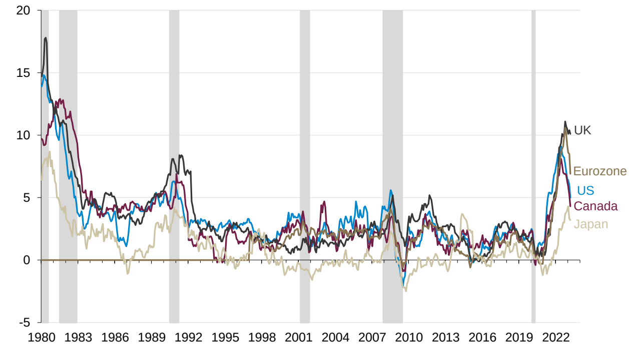
Shaded regions represent periods of US recession; source: Guardian Capital based on data from the OECD to March 2023

Pressure release

Turning attention to prices, it remains the case that inflation, globally, remains elevated at levels that are far above the comfort levels of central banks.

CHART 17: INFLATED SENSE OF SELF-WORTH

Consumer price index[7]
(year-over-year percent change)



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

Importantly, though, the trend here is very much a policymaker's friend.

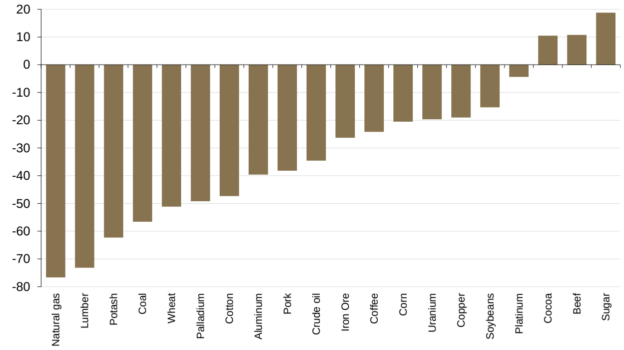
All evidence suggests that the peak has passed and pressures that came to a boil last year are continuing to moderate, with the downward trajectory anticipated to remain in place for the months ahead.

From a top-line perspective, the unwind of the Russian-invasion-driven surge in agricultural and energy commodities will be a big source of disinflationary pressure in the key food and energy components in price gauges in the coming months.

Recall that crude oil prices were north of US$100 per barrel this time last year, more than 20% above current levels; natural gas prices have plunged nearly 70%; and wheat and corn prices have fallen at least 20% from last year's highs.

CHART 18: COMMODITY CRASH

Change in commodity price from 2022 high
(percent)



Source: Guardian Capital based on data from Bloomberg to April 28, 2023

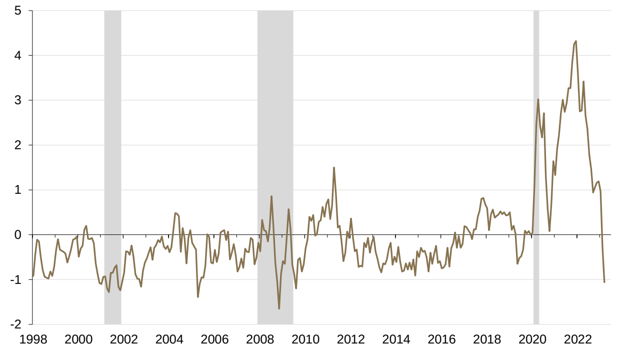
Raw material costs, more broadly, have fallen below earlier peaks, which, in addition to their direct impact on inflation metrics, are likely to cascade through the stages of production and lower end-product costs.

Looking at more "core" prices, the significant supply chain problems that limited access to a wide range of goods and drove prices higher throughout production processes have largely been resolved.

The latest reading of the global gauge of supply-side pressures showed further improvement toward more "normal" levels.

CHART 19: PRESSURE RELEASE

Supply chain pressure index[8], world
(standard deviations from the average)

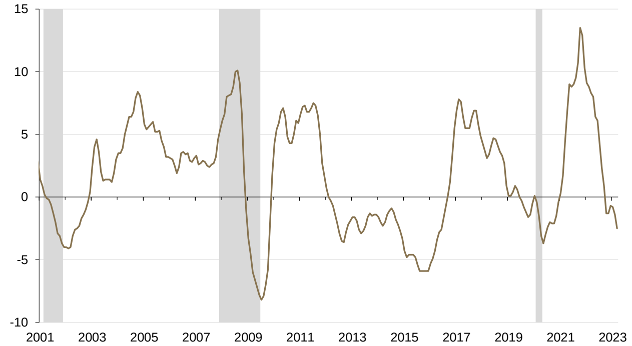


Shaded regions represent periods of US recession; source: Guardian Capital based on data from New York Federal Reserve Bank to March 2023

Port congestion has been alleviated, order backlogs caught up, transportation and shipping costs have come back down to earth, and the factories in China are no longer subject to lockdowns — in terms of the latter, Chinese producer prices, which are often the first step in the value chain, have shifted from sharply accelerating to outright declining.

CHART 20: LESS PIPELINE PRESSURE

Producer price index[9], China
(year-over-year percent change)

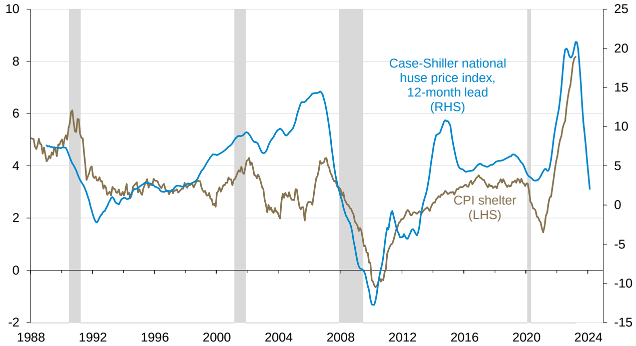


Shaded regions represent periods of US recession; source: Guardian Capital based on data from Bloomberg to March 2023

The biggest item in the basket of household spending is shelter costs, and here there are drastic improvements as well, that will be reflected more in the notoriously lagging price measures in the months ahead, though, somewhat ironically, the higher costs of mortgage borrowing will offset the other gains in affordability.

CHART 21: TAKING SHELTER

CPI shelter & housing prices, US
(year-over-year percent change)

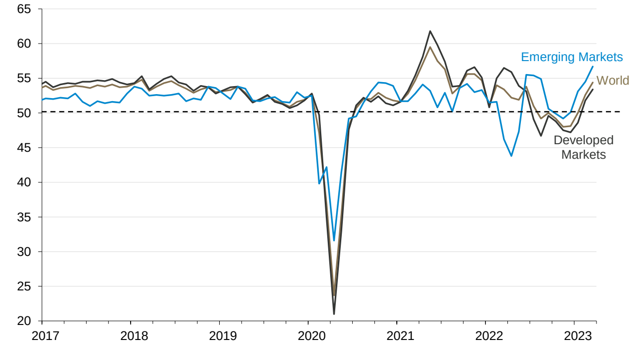


Shaded regions represent periods of US recession; source: Guardian Capital based on data from Bloomberg to March 2023

The anticipation that rates and credit tightness will restrain demand in the future should also help to alleviate the demand imbalance and lessen inflationary pressures. However, ongoing tightness of job markets, and improvement in real incomes as inflation ebbs, could limit the degree of downward momentum — this is particularly the case for the labour-intensive services sector, where demand has been strong as activity rebounds from pandemic-constrained levels.

CHART 22: SERVICE RESUMPTION

Services purchasing managers' index[10]
(diffusion index; >50 denotes expansion)



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

Policy plans

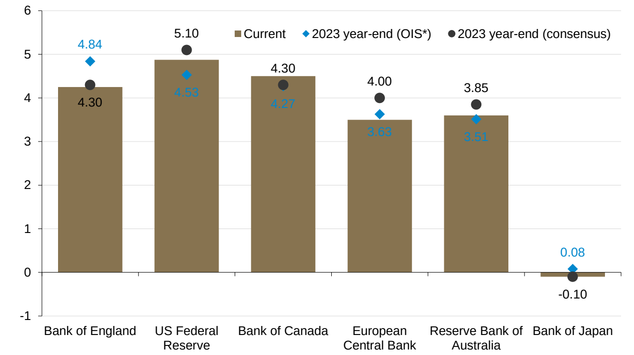
The moderating trend in inflation is clearly a positive from a policy perspective as it reduces the impetus for central banks to keep driving rates ever higher.

Further, the recent indications of tightening in credit conditions by banks suggest that monetary policy will have to do less heavy lifting than previously assumed, with the policy path now expected to be shorter and to a lower terminal point than assumed just a few months ago.

Indeed, it appears that most central banks are approaching the ends of their cycles, with any further tightening only expected to be negligible.

CHART 23: THE END OF THE ROAD

Central bank policy rates & expected year-end levels
(percent)



**Policy rate implied by overnight index swaps; source: Guardian Capital based on data from Bloomberg at April 28, 2023*

With that said, guidance from central bankers is likely to continue to skew toward the hawkish side of the spectrum, even as they move to the sidelines, something that puts them at odds with markets that continue to anticipate that deteriorating growth prospects will lead to rate cuts before year-end.

This will continue to be a source of volatility in financial markets.

While clearly acknowledging the positive trends, the elevated rates of inflation — and the desire to reestablish credibility in their commitment to fighting it for the long-run health of the economy — means that these stewards of price stability are not ready to declare “mission accomplished.”

Further, central banks have shown, in the recent bout of turmoil in the banking sector, that there is a preference to address issues pertaining to financial stability not with the blunt instrument of monetary policy but with tools from their toolbox that allow for a more targeted remedy.

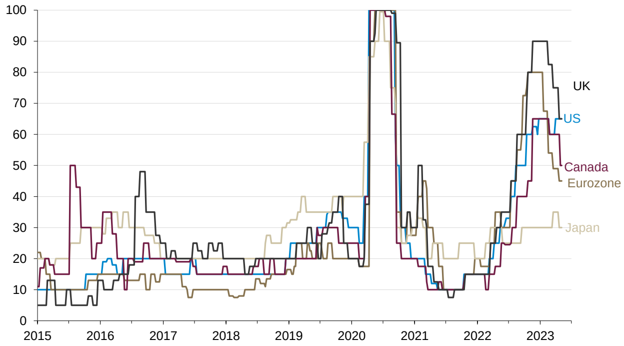
That, in turn, suggests that the bar for a pivot near term is likely much higher than the markets are currently pricing. It is likely that a lot more than a moderation in growth will be required for central banks to start moving back toward a more “neutral” policy stance before inflation is clearly settling at more tolerable levels.

Market machinations

So, while there are risks to the economic outlook, there are good arguments that continue to suggest that the balance of risks for global growth is tilted modestly to the upside versus more pessimistic expectations that still assign high odds of a near-term recession (particularly in the US).

CHART 24: RETATING RECESSION RISKS

Consensus expected probability of recession in 12 months (percent)



Source: Guardian Capital based on data from Bloomberg to April 28, 2023

Inflation looks likely to continue to moderate, but modestly stronger than assumed growth, and particularly a potential sustained resurgence of activity in China, could slow the pace of deceleration and offer modest upsides to current assumptions.

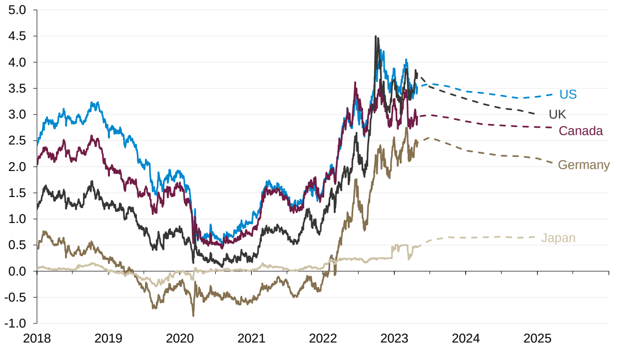
Against this, central banks, while not likely tightening much further, are also unlikely to reverse course in the near term as markets currently assume.

For sure, there are wider than normal confidence intervals surrounding expectations against the uncertainty of how things will develop, which will likely keep volatility across asset classes elevated for the foreseeable future. This baseline, however, has implications for markets given what matters is how things develop relative to expectations.

For starters, the prospect of limited further tightening in policy will likely cap upward pressure on market yields. Current consensus suggests that 10-year sovereign yields will effectively tread water around current trading ranges.

CHART 25: TREADING WATER

10-year sovereign bond yields & forecasts
(percent)

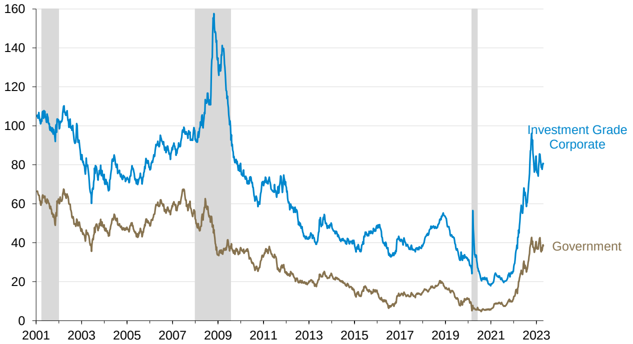


Source: Guardian Capital based on data from Bloomberg to April 28, 2023; dashed lines represent Bloomberg consensus forecasts as at April 28, 2023

Any narrowing in the gap between market expectations and central bank guidance could see some upward repricing of rates, particularly at the front end of the curve, but the overall negative impact on bondholders should be fairly limited as coupons on offer actually provide a cushion to more than offset any hit from modestly higher rates.

CHART 26: SAFETY CUSHION

Ratio* of yield to duration, Global
(basis points)



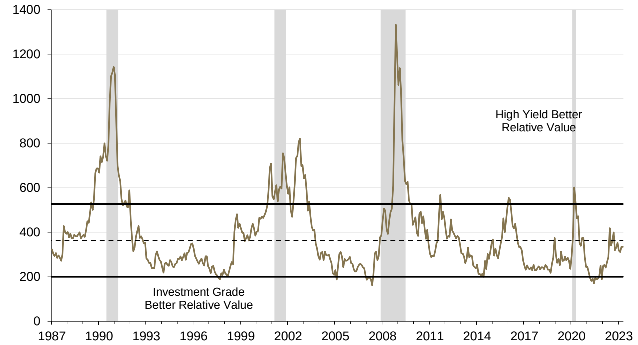
**estimated change in rates required to erase 12-month total return; Investment Grade Corporate=Bloomberg Global Aggregate Corporate Bond Index[11]; Government=Bloomberg Global Aggregate Treasuries Index[12]; source: Guardian Capital based on data from Bloomberg to April 28, 2023*

More generally, the base case of low but positive growth, easing inflation and steady central bank policies would suggest that returns for bondholders in the near term are likely to echo their yields. The shape of the curve and yield spreads support a modest bias to shorter-duration bonds and corporate credit.

The uncertainty over the outlook would suggest it would be prudent to focus on issuers higher up the quality curve, where default risks are materially lower and risk premia are relatively attractive.

CHART 27: QUALITY OVER QUANTITY OF YIELD

Investment Grade over High Yield credit spread, US
(basis points)



Dashed line represents series average; solid black lines are +/-1 standard deviation from the average; shaded regions represent periods of US recession; source: Guardian Capital based on data from Bloomberg to April 28, 2023

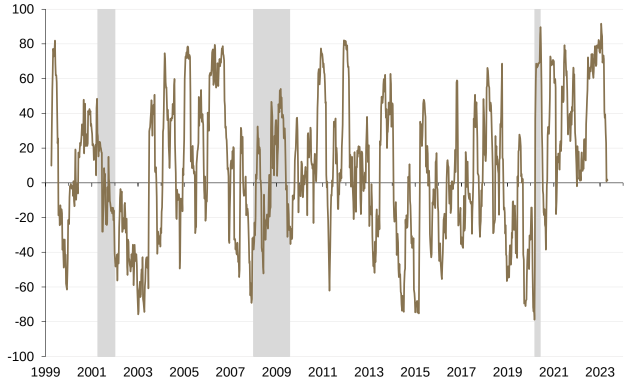
With an eye on the prospects a little further out, the likely rising reinvestment risk, as markets move away from peak rates and yields move lower, would suggest that there would be opportunities to add duration in bond exposures.

Increasing duration also seems prudent from a risk management perspective for balanced portfolios, as their value as a diversifier has increased thanks to last year's (painful) reset.

The yields on offer provide better return prospects than they have in a decade, even in a range-bound base-case environment, 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.

CHART 28: GOING THEIR SEPARATE WAYS

Stock* and bond correlation, Global**
(rolling 13-week correlation of returns)

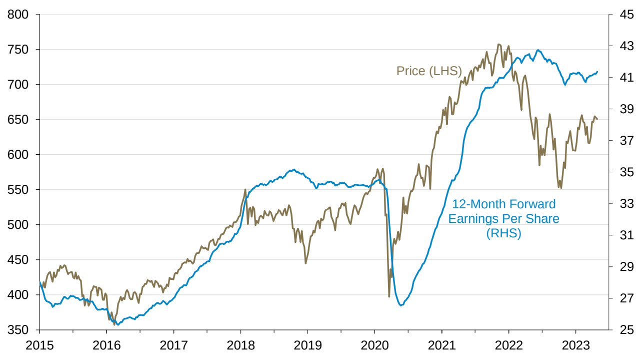


**stocks=MSCI World Index[13]; **bonds=Bloomberg Global Aggregate[14]; shaded regions represent periods of US recession; source: Guardian Capital based on data from Bloomberg to April 28, 2023*

In terms of equity exposures, the rally so far this year has come despite earnings expectations largely treading water, but last year's steep multiple compression and healthy skepticism, that has resulted in bearish sentiment and positioning, means that valuations do not appear to be stretched.

CHART 29: CLOSING THE GAP

Price & forward earnings, MSCI All-Country World Index[15]
(index) (US dollars per share)

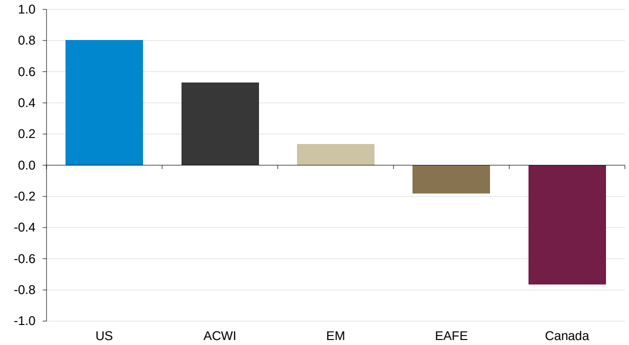


Source: Guardian Capital based on data from Bloomberg to April 28, 2023

That suggests there is some further room to run, particularly in Developed Markets (DM) outside of the US where stocks are still trading at steep discounts relative to their longer-term norms.

CHART 30: VALUE TO BEHOLD

MSCI country index forward price-to-earnings ratio
(standard deviations from long-term average)

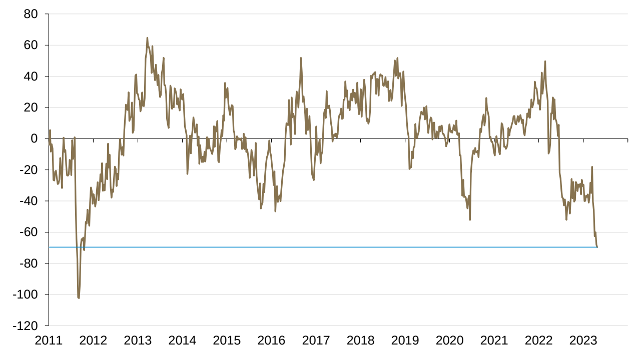


EM=Emerging Markets; ACWI=All-Country World Index; EAFE=Europe, Australasia & the Fare East; source: Guardian Capital based on consensus data from Bloomberg to April 28, 2023

As well, current extreme positioning sets up for a potential rally — data from the US Commodity Futures Trading Commission show that the net speculative short position in futures and options contracts on the S&P 500 Index[16] is more than two standard deviations versus norms, standing to provide a lift as traders head for cover.

CHART 31: A RUN FOR COVER?

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



Source: Guardian Capital based on data from Bloomberg to April 28, 2023

That said, the view that central banks appear likely to disappoint expectations of near-term rate cuts could put a limit on how much further multiples will expand — and the continued heightened uncertainty over the outlook suggests that risk premia will remain elevated.

That means that equity performance in the months ahead will become increasingly dependent on earnings, with the prospect of disappointment against deteriorating economic conditions (the main driver of the bearish thesis currently) keeping investors sidelined with elevated cash balances.

As discussed, however, it appears there is reason to anticipate that underlying strength in the consumer sector could continue to provide support to broader economic growth, and with that, earnings.

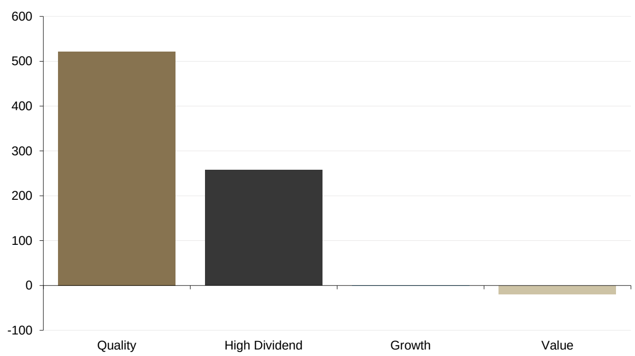
But again, growth is likely to be less abundant than it has been over the last few years.

Accordingly, the ability to continue to exert pricing power will likely become of increasing importance to sustaining earnings — and supporting asset performance in the absence of a markup in valuations.

On that score, there would be support for exposure to the securities of high-quality companies, which offer a layer of defense against a more adverse shift in economic conditions — their more dominant position within markets and industries provides pricing power that stands to protect margins and profitability, while low leverage provides insulation to higher interest rates. High-quality companies traditionally perform well amid more uncertain and volatile environments.

CHART 32: QUALITY AMID VOLATILITY

MSCI World style index return amid high volatility*
(basis point difference in annualized return versus MSCI World)



based on monthly data since 1990 when equity volatility (CBOE equity volatility index or VIX[13]) is above average; source: Guardian Capital based on data from Bloomberg to March 2023

Where we're at versus where we could go

Looking forward, the concern is on what could develop rather than what is already in motion.

As things stand now, there appear to be few causes for immediate concern. Both households and businesses, overall, have been able to take this increase in costs of capital in stride to this point, with only limited signs of any fraying at the margin.

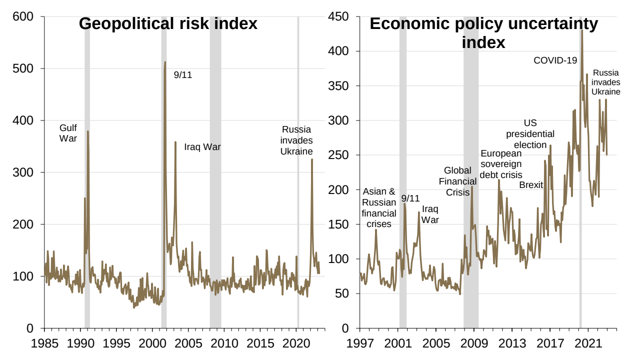
Real estate activity has waned in the face of higher mortgage rates and put downward pressure on prices, but the slump to this point has been orderly.

There are negligible signs that borrowers are struggling to meet their financial obligations, with loan delinquencies holding at low levels and certainly not yet signaling broad problems.

Obviously, there are still plenty of risks to the outlook — in addition to what has been discussed, the geopolitical backdrop remains fraught with the ongoing war in Ukraine, risks of escalating tensions in China's South Sea, and the not dismissible risks around approaching the statutory debt limit in the US due to partisan divides.

CHART 33: RISKY BUSINESS

Geopolitical risk index[14] & policy uncertainty index[15], World
(index; pre-2019 average = 100) (index)



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

As well, the last few years have shown that new risks can emerge rapidly and unexpectedly. As such, the potential for a material downshift in growth cannot be written off completely.

With that said, however, there are factors at play that suggest markets continue to put undue weight on the more negative possible outcomes.

It would, instead, appear that the most likely baseline scenario would be for continued modest global growth in the months ahead, at rates closer to trends that prevailed pre-pandemic than in more recent years.

Slower growth and divergent views on the path of policy by markets and officials make for a challenging backdrop that suggests that the heightened uncertainty, which has become the norm since the onset of the pandemic, will continue. This outlook, therefore, warrants caution, however, the continued indications of pessimism in investor sentiment suggest that there are still opportunities across equity and fixed income markets.

Market Returns at March 31, 2023

All returns in CAD

CANADIAN EQUITIES

INDEX RETURNS (%)	1 Mo	3 Mos	YTD	1 Yr	5 Yrs	10 Yrs
S&P/TSX Composite	-0.2	4.6	4.6	-5.2	8.8	7.9
S&P/TSX 60	-0.5	4.1	4.1	-5.7	9.3	8.4
S&P/TSX Completion	0.8	6.4	6.4	-3.2	7.3	6.1
S&P/TSX SmallCap	-0.4	4.5	4.5	-12.6	5.7	4.6
S&P/TSX Composite High Dividend	-0.9	3.3	3.3	-6.8	9.5	7.3
S&P/TSX Composite Dividend	-0.9	3.5	3.5	-4.3	9.3	8.5

U.S. EQUITIES

INDEX RETURNS (%)	1 Mo	3 Mos	YTD	1 Yr	5 Yrs	10 Yrs
S&P 500	3.1	7.4	7.4	0.0	12.3	15.5
Dow Jones Industrial Average	1.5	0.8	0.8	6.2	10.1	14.4
NASDAQ	6.1	16.6	16.6	-6.9	12.7	17.4
Russell 1000	2.5	7.3	7.3	-0.7	11.9	15.3
Russell 2000	-5.3	2.6	2.6	-4.2	5.7	11.2
Russell 3000	2.1	7.1	7.1	-0.9	11.5	15.0
Russell 1000 Growth	6.2	14.2	14.2	-3.5	14.7	17.9
Russell 1000 Value	-1.1	0.9	0.9	1.9	8.5	12.3

S&P/TSX SECTOR RETURNS (%)

INDEX RETURNS (%)	1 Mo	3 Mos	YTD	1 Yr	5 Yrs	10 Yrs
Communication Services	0.7	3.2	3.2	-7.6	7.7	8.0
Consumer Discretionary	0.4	4.6	4.6	6.5	6.3	11.2
Consumer Staples	4.3	7.9	7.9	12.7	13.4	14.9
Energy	-2.2	-2.3	-2.3	-1.2	8.8	3.4
Financials	-5.9	1.7	1.7	-9.8	7.8	10.1
Health Care	-11.3	0.9	0.9	-57.7	-27.0	-22.3
Industrials	2.0	6.5	6.5	4.0	13.1	13.2
Information Technology	11.1	26.5	26.5	-5.9	17.1	18.4
Materials	6.9	8.1	8.1	-8.4	10.2	3.7
Real Estate	-4.7	5.8	5.8	-12.9	5.3	7.8
Utilities	5.4	6.7	6.7	-9.0	10.3	7.9

S&P 500 SECTOR RETURNS (%)

INDEX RETURNS (%)	1 Mo	3 Mos	YTD	1 Yr	5 Yrs	10 Yrs
Communication Services	9.7	20.4	20.4	-10.9	7.5	8.3
Consumer Discretionary	2.5	16.0	16.0	-12.9	9.7	15.4
Consumer Staples	3.6	0.7	0.7	9.7	11.7	12.8
Energy	-0.8	-4.8	-4.8	23.1	10.6	7.5
Financials	-10.1	-5.7	-5.7	-7.1	6.4	13.5
Health Care	1.6	-4.4	-4.4	4.3	12.9	16.2
Industrials	0.1	3.3	3.3	8.5	9.5	14.4
Information Technology	10.3	21.7	21.7	3.4	20.8	23.6
Materials	-1.6	4.2	4.2	1.5	10.6	12.9
Real Estate	-2.0	1.8	1.8	-13.0	8.5	N/A
Utilities	4.3	-3.4	-3.4	1.6	10.6	12.6

INTERNATIONAL EQUITIES

INDEX RETURNS (%)	1 Mo	3 Mos	YTD	1 Yr	5 Yrs	10 Yrs
MSCI World Index (Net, C$)	2.5	7.6	7.6	0.7	9.0	12.0
MSCI EAFE Index (Net, C$)	1.9	8.3	8.3	6.9	4.5	8.1
MSCI ACWI (C$)	2.5	7.2	7.2	0.3	8.0	11.2
MSCI France (C$)	2.5	14.5	14.5	17.9	7.2	10.7
MSCI Germany (C$)	3.4	14.5	14.5	10.8	1.4	7.1
MSCI Japan (C$)	3.3	6.1	6.1	2.7	2.2	8.1
MSCI UK (C$)	-1.2	6.0	6.0	7.4	4.0	6.4
S&P/IFC Investable (Emerging Markets)	1.9	3.6	3.6	-2.7	0.7	5.9
MSCI EAFE Growth (Gross, C$)	4.8	11.1	11.1	5.7	6.3	9.5
MSCI EAFE Value (Gross, C$)	-0.7	6.0	6.0	8.8	3.4	7.4

INTERNATIONAL EQUITIES

MSCI EAFE SECTOR RETURNS (%)	1 Mo	3 Mos	YTD	1 Yr	5 Yrs	10 Yrs
Communication Services	4.1	10.3	10.3	1.3	1.1	6.3
Consumer Discretionary	4.9	16.9	16.9	13.8	4.9	9.3
Consumer Staples	5.1	7.4	7.4	9.8	4.0	7.3
Energy	-5.1	0.3	0.3	18.8	4.1	5.9
Financials	-6.3	2.4	2.4	7.1	2.0	6.5
Health Care	5.4	5.2	5.2	5.5	8.5	9.8
Industrials	3.2	11.7	11.7	7.8	4.8	9.2
Information Technology	7.7	18.8	18.8	3.9	8.5	13.3
Materials	2.5	7.5	7.5	1.3	7.3	8.8
Real Estate	-4.5	-2.2	-2.2	-13.7	-3.7	N/A
Utilities	5.0	8.1	8.1	7.1	6.2	8.3

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

Market Returns at March 31, 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	0.4	1.1	1.1	2.8	1.3	1.0
FTSE Canada Short Term Overall Bond	1.2	1.8	1.8	0.7	1.3	1.4
FTSE Canada Mid Term Overall Bond	3.2	3.9	3.9	0.0	1.5	2.2
FTSE Canada Long Term Overall Bond	2.6	4.7	4.7	-7.2	-0.2	2.2
FTSE Canada Universe Bond	2.2	3.2	3.2	-2.0	0.9	1.9
FTSE Canada High Yield Overall Bond	0.1	1.9	1.9	-0.6	3.6	4.7
FTSE Canada Real Return Bond Overall	0.7	-0.2	-0.2	-5.7	0.9	1.3

COMMODITY

	1 Mo	3 Mos	YTD	1 Yr	5 Yrs	10 Yrs
Bloomberg WTI Cushing Crude Oil Spot Price	-2.4	-5.8	-5.8	-18.2	4.1	0.4
Bloomberg European Dated Brent BFOE Price	-3.9	-6.3	-6.3	-19.0	3.9	-0.3
Edmonton Crude Oil Syncrude Sweet Blend FOB Spot	-4.1	-4.5	-4.5	-20.2	4.6	-0.1
S&P GSCI Nat Gas Index Spot	-19.8	-50.5	-50.5	-57.4	-3.2	-3.0
S&P GSCI Copper Index Spot	-0.2	7.2	7.2	-6.1	7.1	4.8
S&P GSCI Gold Index Spot	7.5	8.6	8.6	10.1	9.4	5.2

SECTOR RETURNS (%)

INDEX RETURNS (%)	1 Mo	3 Mos	YTD	1 Yr	5 Yrs	10 Yrs
FTSE Canada Federal Bond	2.5	2.9	2.9	-1.2	0.6	1.2
FTSE Canada Provincial Bond	2.4	3.8	3.8	-3.6	0.6	2.2
FTSE Canada All Corporate Bond	1.3	2.8	2.8	-1.0	1.6	2.5

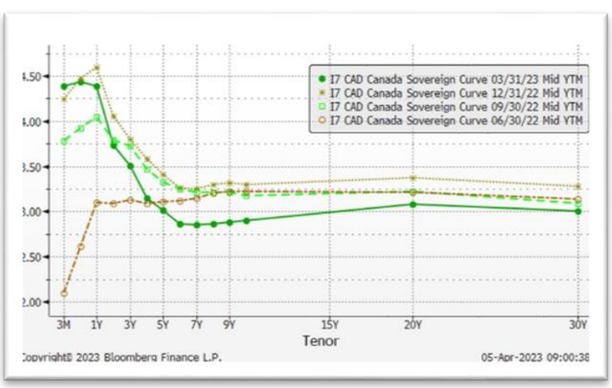
CURRENCY

	1 Mo	3 Mos	YTD	1 Yr	5 Yrs	10 Yrs
CAD/USD (% chg)	-0.6	-0.1	-0.1	8.4	1.0	2.9
CAD/Yen (% chg)	1.7	-1.0	-1.0	-1.2	-3.4	-0.6
CAD/GBP (% chg)	1.5	2.7	2.7	1.8	-1.7	0.8
CAD/Euro (% chg)	1.8	1.7	1.7	5.8	-1.6	1.2

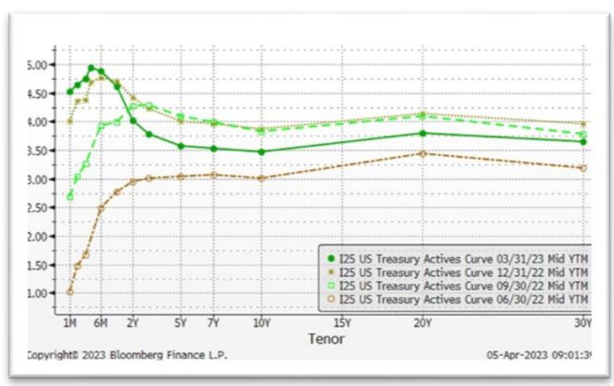
GLOBAL FIXED INCOME

INDEX RETURNS (%)	1 Mo	3 Mos	YTD	1 Yr	5 Yrs	10 Yrs
FTSE World Government Bond	3.2	3.4	3.4	-2.0	-1.4	2.3

GOVERNMENT OF CANADA YIELD CURVE



U.S. TREASURY YIELD CURVE



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

End notes

[1] Citigroup Economic Surprise Index represents the sum of the difference between official economic results and forecasts. With a sum over 0, its economic performance generally beats market expectations. With a sum below 0, its economic conditions are generally worse than expected. Surprise index readings climb up as economy recovers but declines fast as economy declines.

[2] Bank for International Settlements, *Central bank policy rates*, Statistics, Published April 23, 2023. https://www.bis.org/statistics/cbpol.htm

[3] Federal Reserve Bank of New York*, Quarterly Report on Household Debt and Credit, 2022: Q4,* Center for Microeconomic Data, Research and Statistics Group, Released February 2023. https://www.newyorkfed.org/medialibrary/interactives/householdcredit/data/pdf/hhdc_2022q4.pdf.

Equifax Risk Score 3.0 is a general-purpose risk model that predicts the likelihood of a consumer becoming seriously delinquent (90+ days past due or worse) within 24 months of scoring. This includes collections, charge-offs, repossessions, foreclosures and bankruptcies.

[4] 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).

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

[6] 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.

[7] Inflation measured by the Consumer Price Index (CPI) is defined as the change in the prices of a basket of goods and services that are typically purchased by specific groups of households.

[8] The Global Supply Chain Pressure Index (GSCPI) integrates a number of commonly used metrics with the aim of providing a comprehensive summary of potential supply chain disruptions.

[9] The Producer Price Index (PPI) measures the average change over time in the selling prices received by domestic producers for their output. The prices included in the PPI are from the first commercial transaction for many products and some services.

[10] A Services Purchasing Managers' Index represents the services sector of the economy.

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

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

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

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

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

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

[17] The CBOE US Equity Market Volatility Index (VIX) measures volatility implied by the prices of option contracts on the S&P 500 Index. A higher level of VIX implies higher expected volatility over the next 30 days.

[18] 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).

[19] The Economic Policy Uncertainty (EPU) Index is an index developed to measure economic policy uncertainty and is calculated by calculating the relative frequency of each country's newspaper articles, including terms 'economy', 'policy', and 'uncertainty'.

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