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ASSET MIX COMMITTEE ANNOUNCEMENT

Decision by Committee (June 8, 2023) — putting cash to work at higher rates

This commentary is authored by the Guardian Capital LP Asset Mix Committee (AMC)[1]

After experiencing a strong start to the year, global financial markets have been mixed-to-down since Guardian Capital LP's Asset Mix Committee (AMC) last met in April.

The flow of economic activity data has continued to show underlying resilience, which provides further indications that a broad economic downturn is not yet imminent, resulting in upgrades of near-term growth forecasts. Corporate earnings have also broadly outperformed expectations, while guidance has become less dour. In turn, earnings forecasts previously reduced earlier this year have seen upward revisions.

Market sentiment, however, has been weighed down by rising concerns that this continued resiliency will result in inflation proving to be more stubborn than previously assumed. In response, markets have repriced the expected path for policy rates, with terminal rates now expected to be higher and maintained for longer, sending market interest rates back toward the higher end of recent ranges (particularly for shorter-maturity bonds) and deepening the inversion of the yield curve.

The negative omens for the economic outlook coming from the bond market are not being echoed across other segments of financial markets.

In credit, spreads have largely held steady at levels modestly above their longer-term averages, indicating that a broad default cycle is not currently anticipated. That said, there is considerable dispersion based on credit quality, with lower-quality credits in the High Yield space underperforming their higher-quality counterparts.

For equities, gauges of volatility are muted and market valuations have moved higher. Though, this latter development is particularly concentrated on a narrow subset of technology stocks responsible for the vast majority of overall gains recorded year-to-date (and over the last month in particular).

The historically narrow leadership of global equities raises some concerns about the fragility of the market, given that rallies are typically more durable when they have broader participation. The question is whether markets can make further gains should the recent enthusiasm surrounding artificial intelligence and technology developments fade. On the plus side, the fact that the vast majority of the market has effectively been treading water this year, despite the general improvement in earnings momentum, suggests that there remains a decent foundation upon which broader gains can be achieved.

Overall, the near-term bias for the economic outlook was deemed to be tilted positively by the AMC, which should be constructive for risk assets and support their continued overweight toward Equity.

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[1] *Guardian's Asset Mix Committee (AMC) consists of investment professionals and asset class specialists and is charged with overseeing the development and management of multi-asset investment portfolios, specifically addressing asset mix composition/allocation and areas for advice or communication to such clients as it relates to the makeup of their portfolio.*

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That said, there was a preference towards increasing the underlying “quality” focus within Equity allocations by reducing exposure to domestic strategies (which have large absolute weights in the asset mix and are biased toward “lower-quality” sectors, such as natural resources, due to the market in which they operate) in favour of international markets.

US Equity markets carry a relative bias toward high-quality growth stocks, with companies that are global leaders able to exert pricing power. These attributes tend to support outperformance in more challenging economic environments where profit margins and earnings growth face added pressures; such is expected in the coming months. Equities in Europe, Australasia and the Far East (EAFE) were also viewed as attractive alternatives to domestic Equities, given the better relative outlook for the grouping and their attractive valuations.

For Fixed Income, it remains the case that market yields are viewed as being likely at or near their peaks and, while central banks may raise rates more than assumed a month ago, the moves are anticipated to be only marginal from here. Furthermore, the recent uptick in rates was viewed as representing an opportunity to lock in additional yield carry in the bond market.

Given these considerations and that our asset allocations have not materially deviated from their previous levels, as stocks and bonds have broadly kept pace with each other over the last two months, the AMC decided to maintain the current market weights for the respective asset classes (overweight Equity, underweight Fixed Income and Cash). The AMC did, however, adjust allocations within asset classes.

For Equity, the Canadian Equity allocation (representing the largest weight in the asset mix) was pared with positions in such underlying holdings reduced proportionally. The proceeds were reallocated to Global Equity, with half going to a US-centric Growth strategy and the other half used to initiate a position in a Value-biased International Equity Select strategy.

In Fixed Income, the preference remains toward adding duration in the asset mix, resulting in the allocation to Cash being reduced and redeployed to the core Canadian Bond strategy.

Overall, the asset allocation mix remains overweight Equity with a bias toward Global Equity (and a continued tilt toward EAFE and EM) and a focus on Quality Growth strategies that stand to benefit from a market environment in which general growth moderates to lower rates and profitability faces greater constraints. In Fixed Income, there remains a skew in favour of high-quality corporate credit, for which carry and spreads are attractive, and duration remains below that of the broad bond market index. Cash is now below its strategic weight.

The AMC will monitor economic and market developments closely in the coming weeks and stands ready to tactically exploit opportunities that may present themselves.

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Asset Mix Committee Summary Views[2]

Conservative Asset Allocation

	Benchmark*	New Target Allocation**	Change from pre-decision positioning**
Equity	**30.0%**	**32.5%**	**—**
Canadian Equity	***17.5%***	***16.0%***	***-0.8***
Canadian Equity		5.0	-0.3
Canadian Growth Equity		6.8	-0.3
Canadian Focused Equity		4.2	-0.2
Global Equity	***12.5%***	***16.5%***	***+0.8***
Global Dividend Growth		5.5	—
Fundamental Global Equity Global		4.1	—
Emerging Markets Equity		2.7	—
US Equity All Cap Growth		3.8	+0.4
International Equity Select		0.4	+0.4
Fixed Income	**65.0%**	**63.5%**	**+2.2**
Short Duration Bond		2.0	—
Canadian Bond		49.2	+2.2
Investment Grade Corporate Bond		12.3	—
Cash	**5.0%**	**4.0%**	**-2.2**

**Benchmark= strategic asset allocation standard **Figures may not add up due to rounding*

Growth Asset Allocation

	Benchmark*	New Target Allocation**	Change from pre-decision positioning**
Equity	**70.0%**	**74.5%**	**—**
Canadian Equity	***40.0%***	***36.3%***	***-2.0***
Canadian Equity		14.4%	-0.8
Canadian Growth Equity		13.6%	-0.8
Canadian Focused Equity		8.3%	-0.4
Global Equity	***30.0%***	***38.2%***	***+2.0***
Global Dividend Growth		13.2	—
Fundamental Global Equity		10.3	—
Emerging Markets Equity		4.7	—
US Equity All Cap Growth		9.0	+1.0
International Equity Select		1.0	+1.0
Fixed Income	**25.0%**	**21.5%**	**+2.0**
Canadian Bond		16.1	+2.0
Investment Grade Corporate Bond		2.5	—
Strategic Income		1.2	—
Cash	**5.0%**	**4.0%**	**-2.0**

**Benchmark= strategic asset allocation standard **Figures may not add up due to rounding*

[2] These Asset Allocations represent the Asset Mix Committee's tactical views given their assessment of market conditions and performance expectations.

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