

ASSET MIX COMMITTEE ANNOUNCEMENT

Decision by Committee (August 8, 2023)

The flow of economic activity data has continued to show underlying consumer-driven resilience since Guardian Capital LP's Asset Mix Committee (AMC)¹ last met in June, pointing to continued positive growth momentum, albeit at a more moderate rate than a year ago.

Against this, economic and earnings growth forecasts that had been subject to downgrades earlier this year have since been revised up, and expectations for a material deterioration of economic conditions in the near term have fallen notably. The decrease in pessimism over the outlook has meant that market expectations have shifted from anticipating rate cuts would soon be warranted to pricing in the likelihood that rates may stay at higher levels for longer, against concerns over potential upside risks to inflation.

Overall, the more sanguine backdrop has supported an improvement in investor sentiment and an expansion of valuation multiples that has underpinned the continued positive performance of risk assets in recent months. While bond markets have faced further pressures from rising interest rates, the added yield available in bond markets has helped to cushion the impact on returns.

Looking forward, the near-term outlook remains positive and there still appears to be scope for equities to continue to generate positive performance. That said, there is some concern that the shift in market sentiment, and related pricing out of risks, sets up the potential disappointment against a raised bar for expectations.

Accordingly, there is a rising worry at the margin that markets have gotten ahead of themselves, particularly in the more growth-heavy segments of the market, with valuations becoming somewhat unmoored from fundamentals and earnings expectations, perhaps, turning too optimistic. On a regional basis, while valuations are arguably the most stretched in the US relative to its international peers, the US does appear to offer the best opportunities, while also providing among the best earnings visibility for the near term.

The carry available in bond markets means that there is a reasonable alternative to equities for generating portfolio returns, for the first time in more than a decade. The expectation for a continued easing in inflation against moderate growth suggests that there is limited scope for further interest rate increases — the risks to short-term interest rates appear to be fairly balanced at the moment (though with still fairly wide confidence intervals) — while expectations uniformly suggest that rates will ultimately move lower from current levels, which makes for a constructive outlook for fixed income.

Given these considerations, the AMC decided that it was prudent to take the opportunity to manage its risk exposures in its model portfolios by trimming its overweight allocations to Equity and redeploying the proceeds to Fixed Income and Cash.

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.

ASSET MIX COMMITTEE

The allocation to Canadian Equity — which represents the largest strategic weight in the model asset mix — was reduced proportionately across model holdings. For Global Equity, the preference was to increase exposure to the US at the margin — the asset mix is relatively underweight US versus the MSCI World Index², largely due to the off-benchmark position in Emerging Markets — by proportionately trimming the allocations to non-US specific investment strategies. As well, some of the weight in the growth-oriented US All Cap Growth strategy was redeployed to the more value-biased US Equity Select strategy.

The funds taken from Equity were redeployed to Fixed Income and Cash allocations proportionately, based on the current market weight of the model holdings, which skew toward corporate credit with below-market benchmark duration.

Overall, the model asset mix remains overweight Equity with a bias toward Global Equity and a focus on quality growth strategies which the AMC believes 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. The allocation to Cash is below its strategic weight.

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

² The MSCI World Index captures mid- and large-cap representation across 23 developed market countries.

ASSET MIX COMMITTEE

Asset Mix Committee Summary Views³

Conservative Asset Allocation

	Benchmark*	New Target Allocation**	Change from pre-decision positioning**
Equity	30.0%	31.3%	-2.0
Canadian Equity	17.5%	15.3%	-1.0
Canadian Equity		6.5	-0.4
Canadian Growth Equity		4.7	-0.3
Canadian Focused Equity		4.2	-0.3
Global Equity	12.5%	16.0%	-1.0
Global Dividend Growth		5.3	-0.4
Fundamental Global Equity		3.8	-0.3
US All Cap Growth		3.5	-0.5
Emerging Markets Equity		2.4	-0.2
US Equity Select		0.5	+0.5
International Equity Select		0.4	—
Fixed Income	65.0%	64.6%	+1.9
Canadian Bond		50.0	+1.5
Investment Grade Corporate Bond		12.6	+0.4
Short Duration Bond		2.0	+0.1
Cash	5.0%	4.1%	+0.1

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

Growth Asset Allocation

	Benchmark*	New Target Allocation**	Change from pre-decision positioning**
Equity	70.0%	72.9%	-2.0
Canadian Equity	40.0%	35.4%	-1.0
Canadian Equity		14.0%	-0.4
Canadian Growth Equity		13.0%	-0.4
Canadian Focused Equity		8.4%	-0.2
Global Equity	30.0%	37.6%	-1.0
Global Dividend Growth		13.0	-0.5
Fundamental Global Equity		9.9	-0.4
US All Cap Growth		8.3	-1.0
Emerging Markets Equity		4.4	-0.2
US Equity Select		1.0	+1.0
International Equity Select		1.0	—
Fixed Income	25.0%	22.8%	+1.7
Canadian Bond		18.9	+1.4
Investment Grade Corporate Bond		2.6	+0.2
Strategic Income		1.3	+0.1
Cash	5.0%	4.3%	+0.3

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

³ These asset allocations represent the Asset Mix Committee's tactical views given their assessment of market conditions and performance expectations.

ASSET MIX COMMITTEE

Glossary of Financial Terms: For more information on the financial terms used in this document, please refer to the Glossary of Terms on our website at: <https://www.guardiancapital.com/investmentsolutions/glossary-of-terms/>

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