ASSET MIX COMMITTEE ANNOUNCEMENT

Decision by Committee (December 14, 2023)

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

The market backdrop has improved fairly notably since the AMC last met in October, with the dataflow continuing to indicate that a material downturn in economic momentum is not imminent while inflationary pressures have continued to abate.

Indeed, while inflation remains above central bank targets, the degree of moderation and trajectory has removed the impetus for policymakers to keep hiking interest rates. Global central banks have increasingly moved to the sidelines but, more notably, the recent communications from the US Federal Reserve indicated that not only are no more hikes anticipated but discussions have shifted to the potential timing of rate cuts.

This development has driven a material shift away from the views that rates would stay higher for longer, with markets pricing in more rate cuts sooner — this accelerated the rally in bond markets that began last month. The broad and significant decline in market interest rates has, in turn, fueled a notable rally in global equity markets from their October lows.

From the perspective of the AMC, the magnitude of the recent cross-asset rally suggests that markets may well have gotten ahead of themselves, and this is particularly the case for Fixed Income. Ordinarily, the end of a tightening cycle (and the beginning of easing) would favour adding duration to Fixed Income allocations, but the rally (especially the move in recent days) creates a more balanced outlook than otherwise would be expected. As such, the AMC had no preference to make changes to Fixed Income allocations that are tilted in favour of credit and modestly below benchmark duration.

For Equities, the easing of risks to growth, particularly with respect to interest rates, is supportive of the expansion of valuation multiples — and even with the recent increases, underlying market valuations are not viewed as particularly expensive, in large part due to the fact that the majority of overall gains can be attributed to a very narrow subset of the stocks. Looking forward, while there is potential that earnings forecasts are too optimistic at the moment — setting up for some potential fundamental disappointment — any material changes to expectations are unlikely in the near term (barring some sort of shock), while the more constructive backdrop could support an expansion of market breadth that could sustain upward market momentum for the coming months.

The year ahead will also likely see more emphasis on the impact of the developments related to what is viewed as a secular theme of artificial intelligence — and the US is viewed as the leader in this area, suggesting it will reap more productivity and profitability benefits sooner than its peers.

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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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Taking all of this into consideration, and given that the AMC's asset allocation models are comparably underweight the US (relative to the global equity benchmark MSCI World Index largely due to the off-benchmark exposure to Emerging Markets), the decision was made to increase the allocation to US equity, namely to the US Equity Select strategy, which the AMC believes would benefit from the improved market breadth. The weight was taken from the allocation to cash, which was viewed less positively amid expectations of declining short-term interest rates that the AMC expects could decrease yield potential and raise reinvestment risk. The AMC was comfortable with its risk exposures in Canadian Equity and Fixed Income and opted to leave these allocations unchanged at their current market weights.

Overall, AMC's portfolios asset mix models remain overweight Equity (relative to their benchmarks; underweight Fixed Income and Cash); Equity allocations are biased toward Global Quality Growth; Fixed Income is skewed toward corporate credit and modestly below benchmark duration.

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.

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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%**	**31.8%**	**—**
Canadian Equity	***17.5%***	***15.3%***	**—**
Canadian Equity		6.5	—
Canadian Growth Equity		4.7	—
Canadian Focused Equity		4.1	—
Global Equity	***12.5%***	***16.6%***	**–**
Global Dividend Growth		5.5	–
Fundamental Global Equity		3.9	—
US All Cap Growth		3.7	—
Emerging Markets Equity		2.2	—
US Equity Select		0.9	+0.4
International Equity Select		0.4	—
Fixed Income	**65.0%**	**64.6%**	**—**
Canadian Bond		50.0	—
Investment Grade Corporate Bond		12.6	—
Short Duration Bond		2.0	—
Cash	**5.0%**	**3.6%**	**-0.4**

**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%**	**74.2%**	**—**
Canadian Equity	***40.0%***	***35.2%***	**—**
Canadian Equity		14.0%	—
Canadian Growth Equity		13.0%	—
Canadian Focused Equity		8.3%	—
Global Equity	***30.0%***	***39.0%***	**—**
Global Dividend Growth		13.4	—
Fundamental Global Equity		9.9	—
US All Cap Growth		8.7	—
Emerging Markets Equity		4.0	—
US Equity Select		2.0	+1.0
International Equity Select		1.0	—
Fixed Income	**25.0%**	**22.7%**	**—**
Canadian Bond		18.8	—
Investment Grade Corporate Bond		2.6	—
Strategic Income		1.3	—
Cash	**5.0%**	**3.1%**	**-1.0**

**Benchmark=portfolio strategic asset allocation **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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