Investment Solutions Group

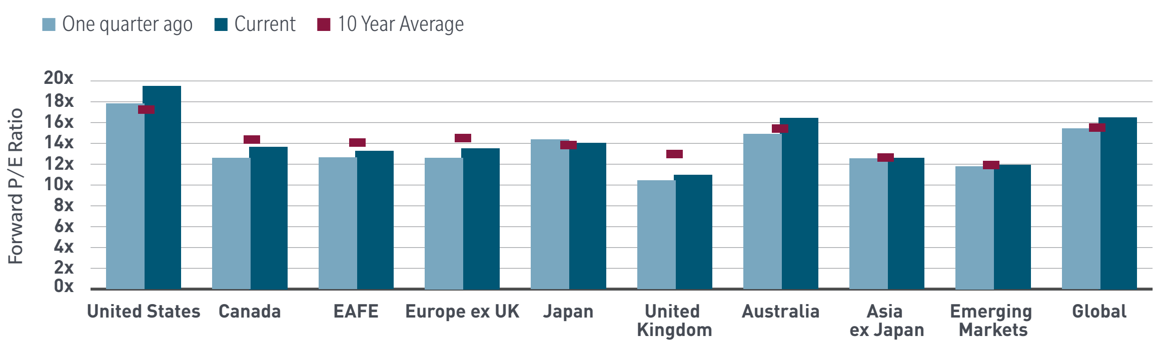
January 2024

Capital Markets View Summary

GLOBAL EQUITY SUMMARY

Moderating global inflation pressures, signs that central banks will begin cutting interest rates in 2024 and growing hopes for a US soft landing helped spark a sharp rally in global equities in late 2023. For the calendar year, developed market equities rose just over 21% in 2023, led by solid gains in US and Japanese shares. A growing view that easier US Federal Reserve policy is likely in 2024 helped put an end to an episode of dollar strength, which could provide a tailwind for the earnings of US-based multinationals. Given international equities' lower earnings multiples, the 2023 rally brought valuations back in line with their 10-year average. However, considering the market's aggressive pricing of easier global monetary policy this year, there is the growing risk of disappointment if inflation proves stickier than expected. There is also a risk that the late-2023 rally pulled forward returns that otherwise might have been realized in 2024. We continue to favor international equities over those in the US and view midcaps more favorably than small caps. Value remains attractive from an earnings multiple perspective, though we prefer defensives over cyclicals.

Forward Price to Earnings



Source: FactSet as of 29 December 2023. United States = S&P 500, Canada = MSCI Canada, United Kingdom = MSCI United Kingdom, Japan = MSCI Japan, Australia = MSCI Australia, Global = MSCI AC World, Europe ex UK = MSCI Europe ex-UK, EAFE = MSCI EAFE, Asia ex Japan = MSCI Asia ex Japan, Emerging Markets = MSCI Emerging Markets.

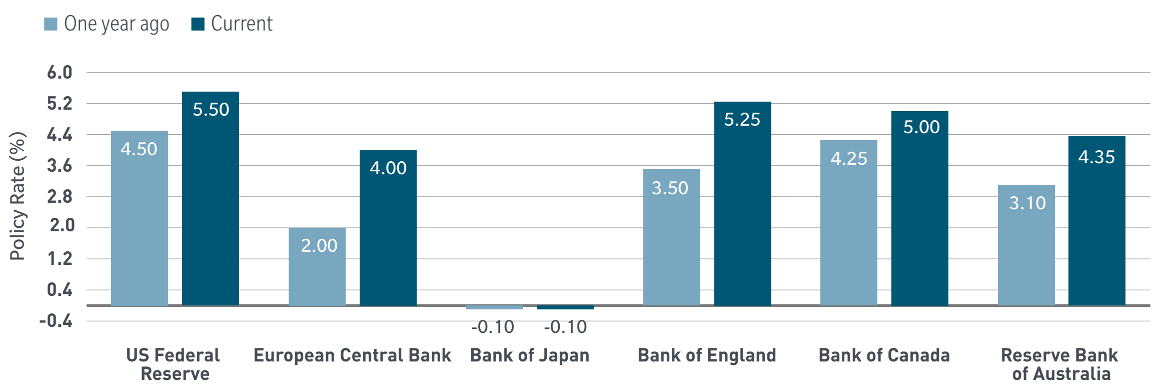
	SALES GROWTH (YOY%)		NET PROFIT MARGIN (%)		DIVIDEND YIELD (%)	
	Current	10-Year Average	Current	10-Year Average	Current	10-Year Average
United States	2.1	4.5	12.2	11.2	1.5	1.9
Canada	-1.0	5.9	13.7	11.3	3.3	3.0
EAFE	0.8	2.6	9.6	7.8	3.2	3.2
Europe ex UK	-1.0	2.8	10.1	7.9	3.3	3.2
Japan	4.6	3.0	6.6	5.7	2.3	2.2
United Kingdom	-3.8	2.1	11.0	8.6	4.0	4.2
Australia	2.6	2.2	15.8	14.9	3.9	4.5
Asia ex Japan	2.9	6.6	8.9	9.6	2.5	2.5
Emerging Markets	1.7	7.1	9.7	9.7	2.8	2.8
Global	1.4	4.1	11.0	9.6	2.1	2.4

Source: FactSet as of 29 December 2023. Data shown are trailing (last twelve months). United States = S&P 500, Canada = MSCI Canada, United Kingdom = MSCI United Kingdom, Japan = MSCI Japan, Australia = MSCI Australia, Global = MSCI AC World, Europe ex UK = MSCI Europe ex-UK, EAFE = MSCI EAFE, Asia ex Japan = MSCI Asia ex Japan, Emerging Markets = MSCI Emerging Markets

GLOBAL FIXED INCOME SUMMARY

At the end of 2023, bond markets have moved past discounting peak policy rates from the world's largest central banks to pricing in aggressive monetary easing, perhaps as early as this spring. Under a soft-landing scenario, we believe markets may be too aggressive in their pricing and at risk of a correction if the hoped-for Goldilocks scenario proves elusive or if inflation ends up stickier than expected. The strong bond market rally that closed out last year left some markets, particular US credit markets, somewhat stretched, making European credit look more enticing in the near term. Japan is likely to buck the easing trend in 2024 as the Bank of Japan is expected to exit its negative interest rate policy in coming months, which could have knock-on effects for bond markets around the world. Monetary policy in China is expected to ease further amid continued weakness in the country's property sector, sluggish investor confidence and concerns over an inconsistent regulatory regime. Markets will be on guard for any signs that the global disinflationary trend, so firmly in place in 2023, begins to wane. With China experiencing subpar growth, global goods prices are likely to remain subdued. Thus the services sector will remain in the spotlight amid relatively tight global labor markets. If wages remain elevated, progress toward central banks' 2% inflation targets could be impeded. Overall, we feel the market backdrop should remain supportive of an active approach to fixed income portfolio management given anticipated relative value opportunities and market dislocations.

Central Bank Policy Rates



Source: FactSet as of 29 December 2023.

	YIELD TO MATURITY (%)		DURATION (YEARS)	
	Current	10-Year Average	Current	10-Year Average
US Treasuries	4.1	2.0	6.2	6.2
Global ex US Sovereigns	2.9	1.4	7.0	7.5
Emerging Markets Debt	7.2	6.0	6.9	7.3
Global Investment Grade	4.7	2.9	6.1	6.6
Global High Yield	8.3	6.8	3.6	4.2
US Municipal Bonds*	3.2	2.3	6.1	6.1

Source: FactSet as of 29 December 2023. US Treasuries = Bloomberg Barclays US Aggregate Government Treasury Index, Global Sovereigns ex US = Bloomberg Barclays Global Aggregate ex US, Emerging Market Debt = JP Morgan EMBI Global, Global Investment Grade = Bloomberg Barclays Global Aggregate Corporate, Global High Yield = Bloomberg Barclays Global High Yield, Municipal Bond = Bloomberg Barclays US Municipal.

*yield to maturity unavailable for the municipal bond, so yield to worst is shown instead.

Definitions

Dividend Yield is the yield a company pays out to its shareholders in the form of dividends. It is calculated by taking the amount of dividends paid per share over the course of a year and dividing by the stock's price.

Yield to maturity ("YTM") is the average rate of return (gross of fees) anticipated on a bond portfolio if all securities are held until they mature. The calculation of YTM takes into account the current market price of bonds, their par value, coupon interest rate, and time to maturity. It also assumes that all coupons are reinvested at the same rate.

Weighted average yield-to-worst of all portfolio holdings. The yield-to-worst is computed by using the lower of either yield-to-maturity or the yield-to-call on every possible call date. Essentially the yield-to-worst is a bond's yield-to-maturity under the least desirable bond repayment pattern under the assumption that bond market yields are unchanged.

Duration is a measure of how much a bond's price is likely to fluctuate with general changes in interest rates, *e.g.*, if rates rise 1.00%, a bond with a 5-year duration is likely to lose about 5.00% of its value.

Weighted average price/earnings (next 12 months): Price/earnings ratio (P/E) is the price of a stock divided by its earnings per share.

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