Market Outlook 2024

canada life | Investment Management™

Managing transition. Unlocking potential.

Unprecedented monetary tightening by major central banks dominated investors’ concerns in 2023. Geopolitical tensions, weakening labour markets and the realignment of global trade networks are likely to be top of mind in 2024.

Contents

Foreword

After extending the most rapid sequence of rate increases in decades, major central banks held interest rate positions steady at the end of 2023, signalling more increases may not be necessary to manage inflation. As markets adapted to the narrative that interest rates may remain elevated for longer than previously forecasted, the effects rippled through equity and fixed income markets globally.

In 2023, growth stocks outperformed their value counterparts. Equity market returns in Canada lagged those in the U.S. and internationally with consumers growing concerned about elevated borrowing costs. Fixed income markets declined slightly amid rising rates, an inverted yield curve and outperformance by riskier products.

Against a backdrop of uncertain economic growth and higher bond yields, we observed significant assets moving into cash equivalent-type solutions to take advantage of safety and elevated interest rates. High interest savings accounts (HISAs) and guaranteed investment certificates (GICs) saw significant demand. Even though investors leaned towards these risk-averse strategies, it's important to reinforce that positioning funds on the sidelines could mean missing out on opportunities for diversification and potentially stronger returns across other asset classes.

If the era of ultra-low interest rates is over, as market consensus suggests, the prior decade's dominance by growth stocks could be challenged by dividend and value strategies. This regime shift into a 'higher for longer' interest rate environment in 2024 and possibly beyond could alter investor psychology in terms of consumer spending, saving and investing decisions.

As we begin the journey into 2024, investment professionals may be drawn into the debate over whether a global recession has been avoided or merely postponed. Internationally, geopolitical conflicts will continue to disrupt trade relationships and could magnify volatility in commodity prices. The wars in Ukraine and the Middle East have already profoundly affected many individual lives, a poignant and sobering reminder that the value of stability should not be taken for granted.

Foreword

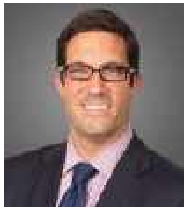
This edition covers several key topics, including:

- How monetary policy could diverge regionally and drive asset allocation decisions.
- Risks to carbon-neutral goals given high capital costs for new energy infrastructure.
- The implications of interest rates potentially remaining higher for longer.
- Opportunities for portfolio diversification in fixed income markets.
- The exciting potential for AI to drive equity markets.

As this new regime of higher interest rates, geopolitical tensions and economic uncertainty continues to take shape, risk management has never been more critical. It's important to consider and manage a wider range of risks such as: economic, policy, geopolitical, sector specific, stretched valuations or bubbles, and concentrated equity markets. Diversification alone cannot manage all these risks. Active management is critical, as volatility will be fertile ground for good active managers to add value. Succeeding in this new regime means being dynamic and flexible – look to tilt your strategic weights to take advantage of opportunities because the traditional 'set and forget' of a 60/40 portfolio may not function as expected.

From this dynamic market environment, we present Canada Life's 2024 market outlook to help foster meaningful conversations with clients and ultimately unlock the potential of your asset allocation decisions.

At Canada Life Investment Management, our goal is to inform your asset allocation decisions and support you in building more resilient portfolios. In 2023, our fund shelf optimization and fund lineup expansion demonstrated our commitment to delivering exceptional investment outcomes with well-designed products. In 2024, leveraging the advantages of active management, alternative asset classes and diversification will be powerful ways to operate in a financial environment in flux. Thank you for continuing to put your trust in Canada Life Investment Management. As always, we welcome your thoughts and feedback. ■



Steve Fiorelli
President and Chief Executive Officer
Canada Life Investment Management

Global macro view

The global economy was resilient in 2023, avoiding the recession many anticipated at the start of the year. However, growth diverged across major regions. U.S. growth forecasts were revised higher as strong employment buoyed consumption. Climate- and semiconductor-related investments were boosted by the Inflation Reduction and CHIPS Acts. China's economy enjoyed a reopening surge in the first quarter of 2023 but, after this, property sector difficulties and subdued consumer and corporate confidence resulted in slower growth. Europe flirted with a recession as interest rates rose, consumers grew reluctant to spend excess savings and the manufacturing sector's sensitivity to China dragged economic activity.

Looking into 2024, conflicting forces remain at play. Inflation may have peaked but has moderated more slowly than expected as tight labour markets contributed to lingering wage pressures and sticky services inflation. Even though the U.S. Federal Reserve Board (Fed) is probably close to its peak policy rate of this cycle, most central banks indicated inflation would not return to their 2% targets until 2026. Rates are expected to remain higher for longer with cuts unlikely until the second half of 2024.

Irish Life

Higher debt servicing costs could lead to rising bankruptcies and consumer credit defaults. However, resilient consumers and healthy corporate balance sheets with lower gearing levels and lengthening debt maturity profiles means that debt servicing costs should remain lower than during the global financial crisis in 2008.

The manufacturing sector struggled in 2023 as demand switched from goods to services. However, with inventories more balanced, manufacturing output should begin to recover. In addition, the recent slowdown in services could stabilize as consumer balance sheets remain strong.

Global macro view

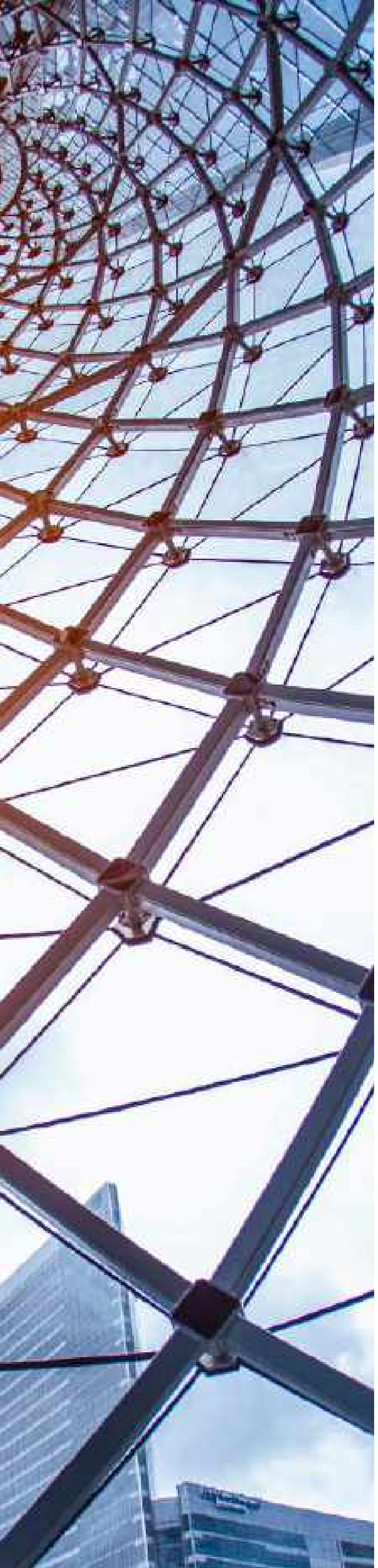
Reduced globalization and trade threaten the growth models of open economies and those that benefited from the relocation of supply chains to lower-cost regions. This shift provides opportunities for developed economies as reshoring becomes more prevalent. Mexico should benefit from its relatively low-cost base and proximity to the U.S. In this context, China faces challenges, although policy support measures are likely to limit any spillover from weakness in the critical property sector. Repositioning towards greener and high-tech activities should help maintain China's growth in the low to mid-single digit range.

Fiscal support is expected to decline in 2024, although the U.S. election cycle may help curb any reduction in the U.S. Stress points such as the regional U.S. banking crisis demonstrated that a policy put (a form of assurance) still exists, despite higher implementation hurdles.

Global growth forecasts for 2023 have been raised closer to the long-term trend at 2.6%, largely due to U.S. economic strength. Growth is expected to slow in 2024 but remain positive with a soft landing seen as the most likely outcome. In this scenario, a recession would be avoided, and inflation would fall, enabling central banks to begin cutting rates in the second half of 2024.

Irish Life

Over the medium term, structurally higher inflation and policy rates compared to the post-Great Financial Crisis era could restrain growth. However, this trend may be counterbalanced by the adoption and implementation of generative artificial intelligence (AI). Forecasts suggest that AI could increase global growth between 10 to 15% over the next 10 years and potentially double productivity, generating a strong backdrop for the global economy. ■



Asset allocation

The implications of higher interest rates, diverging economic growth, and elevated geopolitical tensions will likely impact capital markets in 2024. Consumers, corporations and investors may find it challenging to navigate these pressures, meaning that shifts in market stability, investor sentiment and conviction will be important. We expect volatility to be a prevailing trend in 2024.

Current asset mix

Equities

Underweight Neutral Overweight

Fixed income

Underweight Neutral Overweight

88-2518

Portfolio Solutions Group

A division of Canada Life Investment Management

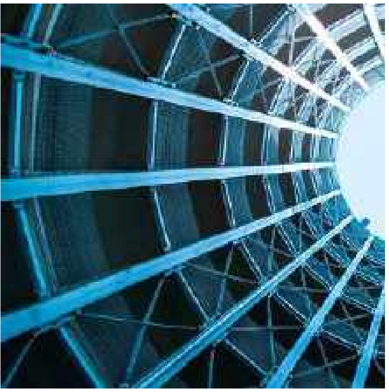
Fixed income

The prolonged yield curve inversion in North America is considered a typical precursor to an economic slowdown. Longer-term rates may fall and bond prices increase as the markets anticipate weaker conditions and, eventually, central banks may lower overnight rates to stimulate the economy.

As company fundamentals weaken and credit risk increases, corporate bonds tend to underperform government bonds. As such, we maintain a cautionary outlook for corporate bonds in 2024.

Portfolio positioning:
Diverse exposure by credit type, region and term structure. Opportunistically positioned with lower than benchmark duration. Despite the risk, the attractive yield of quality corporate bonds, including private credit, warrants an overweight position, in our view.

Asset allocation



Equity

With headwinds from higher interest rates and geopolitical risks, we expect earnings growth and overall company fundamentals to remain a focus in 2024. Higher rates and tighter financial conditions will be absorbed by varying magnitudes across regions and sectors. Consumer behaviour will be the driving force behind corporate fundamentals. It remains unclear whether valuation levels, especially in the U.S., can be maintained.

Portfolio positioning:
Diversified geographically, across sectors and across market capitalizations. Lower allocation to U.S. equities given potential risks.

Global alternatives

Canadian real estate is well-positioned to take advantage of longer-term trends. Growth in the industrial space is being fuelled by deglobalization and reshoring. Scarcity and affordability support long-term demand for multi-residential rental apartments in Canada.

In private credit, higher, more stable rates will likely provide more stable yield. Although loan loss risk could increase with a slowdown, our confidence in total returns remains strong.

Portfolio positioning:
Given the potential for an economic slowdown in 2024, alternative asset classes such as real estate and private credit provide attractive diversification, income generation and capital preservation opportunities. ■

Canadian fixed income

In our view, recessionary risks have not yet been fully reflected in credit spreads in Canada. In response, we focused on increasing portfolio credit quality, paying attention to issuers in the more defensive utilities and infrastructure owners' sectors.

Canadian market sentiment has been palpably cautious. Higher interest rates are starting to chip away at households' disposable income due to surging mortgage payments and higher debt service costs. The Bank of Canada has its eyes on the housing market, mortgage burden and a decelerating economy while delicately poised to deliver its mandate of bringing inflation back to 2%. A large volume of five-year fixed rate mortgages were entered into in 2019 and 2020, making the risks around resets quite acute for 2024.

Canada's economic growth turned negative in the second quarter of 2023 and was mediocre in the third quarter of 2023. And so, we believe the BoC is close to facing a trade-off between growth and inflation. The market has priced in a minimally changed policy rate in 2024. Given the risks, this seems to be an unlikely scenario to us and, accordingly, Canada is a market where duration, a measure of the portfolio's sensitivity to interest rates, appears increasingly more attractive.

MACKENZIE
Investments

Key expectations

- ✓ We believe the short end of the Canadian yield curve offers considerable value, with high-grade, shorter-term Canadian corporate bonds yielding close to 6%.
- ✓ Generally speaking, interest rate cuts by central banks provide an attractive opportunity to buy bonds and lock in those yields.
- ✓ If inflation trends are structural, then, in theory, central banks' commitment to higher-for-longer rates could provide much needed counterbalance.

Portfolio positioning:
We remain cautious on the auto segment, especially captive finance companies with exposure to financing for auto buyers.

Canadian fixed income

Upcoming mortgage resets in 2024 will place pressure on consumers, suggesting that market softness is on the horizon. In addition to elevated yields, we believe these securities have the potential for significant price appreciation.

Higher-quality investment-grade credit issuers present another interesting opportunity to find bonds trading at a discount with attractive yields, and a stable credit outlook.

Internationally, the Bank of Japan (BoJ) may tweak the top end of its yield curve control ceiling, but we believe the Japanese sovereign curve will take time to normalize. The European Central Bank (ECB) raised its deposit rate to 4.00% in September and held it there in October. We believe a point is approaching when buying European duration can become attractive again. ■

MACKENZIE Investments

Canadian fixed income

After a promising start to 2023, it has been another difficult year for fixed income investors, with a decline in bond markets in September bringing yields to highs not seen since before the global financial crisis. With yields elevated, newly issued bonds can provide investors with attractive, predictable income, while offsetting some equity market risk. We could potentially hit the peak of the tightening cycle by late 2023 or early 2024, which would coincide with the peak in yields, thus stemming the decline in bond prices. After pausing, central banks may eventually ease rates to stimulate the economy, which could drive bond prices higher.

In a rate-hiking cycle, the five-to-10-year part of the curve usually suffers the most. Conversely, it could outperform once central banks pause raising interest rates and consider rate cuts.

The major risk of moving interest rates so much above neutral into restrictive territory stems from the lagging nature of inflation as an indicator. This means the probability of central banks over-tightening is high, even though they are aware of this danger. If the unemployment rate increases enough over the next six months, the Bank of Canada (BoC) may pivot quickly to cut rates. ■

BG BEUTEL GOODMAN
Investment Counsel

Key expectations

- ✓ We expect the Fed and the BoC to begin cutting interest rates in the second half of 2024 as more clarity on a 'soft' or 'hard' landing emerges.
- ✓ Bringing core inflation back to 2% will test central banks and will likely require economic pain in the form of higher unemployment.
- ✓ Geopolitical risk, while hard to quantify, will still affect market sentiment and could lead to a flight to quality in bond markets.

Portfolio positioning:
The steepening of the yield curve should benefit five- to 10-year bonds more than other parts of the curve.

Global fixed income

Global growth, inflation and central bank policy will be influential in fixed income markets in 2024 as monetary tightening works its way through the system. Weak composite purchasing managers' indexes in the eurozone and the U.K. point to prolonged below-trend growth with rising recession risks. In China, the decline in housing activity is weighing heavily on corporate and local government balance sheets.

In October 2022, core inflation was above 6%. In 2023, we anticipated that U.S. inflation would fall towards the Fed's 2% target. That seems to be playing out with the core consumer price index averaging 0.2% month-on-month in June, July and August, the equivalent of 2.4% annualized. We expect this trend to continue with inflation falling to the Fed's 2% target in 2024.

Despite making significant progress toward its inflation goal, the Fed believes it needs to maintain restrictive policy. Monetary policy takes time to work through the economy, and we believe that much of the drop in inflation so far is related to easing pandemic supply disruptions. It remains to be seen how the most aggressive tightening cycle since the 1980s plays out. Although the Fed is aggressive for now, its tone could shift quickly in response to labour market weakness, for example. Our base case is that the Fed is probably finished raising rates, and policymakers' focus will shift to timing the easing cycle when economic weakness becomes more evident. ■

Brandywine GLOBAL

Key expectations

- ✓ We believe that large moves in bond yields and currencies create the potential for cyclical mean reversions. In other words, financial metrics could return closer to long-term averages.
- ✓ We like the intermediate section of the U.S. treasury curve, given attractive yields and less sensitivity to uncertainty.
- ✓ Outside of the U.S., we believe that certain emerging market countries and currencies offer attractive valuations, a positive balance of payments and historically high real short rates.

Portfolio positioning:
We are selectively positioned in high-quality government bond markets, shorter- duration corporate bonds, select emerging markets, and U.S. agency mortgage-backed securities (MBS). We believe most of the yield increases expected for this cycle have occurred.

Canadian equities

Given the unprecedented increase in interest rates, we are concerned about companies that are highly levered and rely upon variable short-term debt. Canadian equity investors can leverage several strategies to protect themselves against rising interest rates.

Investing in profitable companies during economic downturns is critical to long-term success. Companies that pay dividends out of earnings with reasonable payout ratios are attractive, in our view. Investors should look closely at payout ratios and shy away from companies that pay out more than 100% of their earnings. Inexpensive companies are part of perhaps the most important defensive mechanism in a rising rate environment. During high inflation in the 1970s, the value of many equities declined. Expensive got inexpensive.

FOYSTON, GORDON & PAYNE INC.
INVESTMENT COUNSEL

Key expectations

- ✓ Canadian companies with operations in Canada and the U.S. stand to benefit from a revival in North American investment related to the ongoing energy transition.
- ✓ We believe Canada's natural resources sector is well-positioned, given the potential of supply constraints for energy and other commodities.
- ✓ Increased interest rates fundamentally influence companies' investment decisions. We believe that companies with higher debt and expensive valuations are more at risk.

Portfolio positioning:
We are positive about commodities for 2024. The crux of our thesis is based on limited supply growth in an environment in which spare global capacity is low.

Canadian equities

In the Canadian energy sector, we view valuations as compelling, remaining well below historical averages, and with only modest growth ambitions. We expect the sector to generate lots of free cash flow in the next few years. The Trans Mountain Pipeline expansion is set to increase market access. Canadian oil sands are by nature long-life and low-decline, and they can produce for 40 years with minimal geologic risk. In contrast, a typical oil sands in-situ project produces for 15 years before replacement wells are needed. Canadian oil sands offer better free cash flow than traditional oil wells.

Strong oil demand recovery following the COVID-19 pandemic was met with anemic supply growth, resulting in Organisation for Economic Co-operation and Development (OECD) inventories being drawn to ultra-low levels. Geopolitical risk is higher than it has been for two decades. The Middle East supplies one-third of global oil production and a regional conflict could seriously affect oil supplies from the region. ■

Foyston, Gordon & Payne Inc.
Investment Counsel

Canadian equities

Inflation has been the dominant investment theme of 2023. In 2024, the prospect of "higher for longer" interest rates may weigh on investor sentiment and the economy, especially if core inflation remains elevated and central banks feel the need to hike rates again. Other key factors could include how corporate earnings respond after a difficult 2023, as well as overall consumer expectations.

Housing is a large part of the Canadian economy, which makes the country more susceptible to interest rate risk. Refinancing a mortgage in 2024 will be at much higher rates versus the norm post the global financial crisis. Higher mortgage payments could have the knock-on effect of increasing rents, and rising shelter costs could have a cooling effect on the rest of the economy.

The BoC's recent survey of consumer expectations showed that high inflation and rising interest rates have had a negative financial impact on most households, causing them to reduce spending. It is important to note that unemployment has remained low (5.5% in September) throughout the hiking cycle of the past 18 months. Should this resilience change, it will have implications for the consumer sectors and the economy. ■

BEUTEL GOODMAN
Investment Counsel

Key expectations

- ✓ In the fourth quarter of 2023, the BoC projected inflation would stay around 3% into mid-2024, and only return to its 2% target by mid-2025.
- ✓ The labour market's resilience amid all the rate hikes points to underlying economic strength, although recent data suggests the job market is softening.
- ✓ Global exports make up approximately one-third of Canadian gross domestic product. So, while U.S. economic strength during this tightening cycle is positive, China's underwhelming post-pandemic recovery remains a concern.

Portfolio positioning:
We are long-term, bottom-up value investors and, as such, typically wait patiently for market dislocations as they present opportunities to purchase high-quality businesses when they appear out of favour.

U.S. growth

We anticipate a reasonably slow-growth economy in 2024. Interest rates are likely to move a bit higher, and the impact of higher mortgage rates and student loan repayments will impact consumer sentiment. The ability of certain companies to grow through the headwinds will differentiate individual stock returns. Having said that, we believe that our portfolio is fundamentally positioned to succeed in a variety of economic conditions given the types of businesses we own. We are focused on businesses with pricing power, longer-term contracts, price escalators, a lack of customer concentration and high barriers to entry.

Our newest theme is AI. In the technology sector, excitement around AI has been building for many years. But now, we're seeing strategic action and prominent real-world AI applications from some of the world's largest tech companies as it relates to AI. We believe the immediate beneficiaries of this theme are enablers, such as semiconductor companies, as well as scaled platforms, such as cloud service providers. However, we also see meaningful potential for future applications of generative AI across other sectors – notably health care, consumer and industrial end markets. ■

Putnam INVESTMENTS

Key expectations

- ✓ As pandemic savings dwindle, consumer spending patterns could weaken.
- ✓ From a macroeconomic perspective, inflation could remain a key focus of the Fed's policy decisions.
- ✓ The financial burden for many consumers is increasing as pandemic-related benefits wind down, as we are seeing nascent signs of stress for lower-income borrowers, including in auto financing and credit card debt.

Portfolio positioning:
Our thematic approach remains a critical part of our investment process and a distinct feature of the fund as we identify themes that can drive sustained growth for businesses over a multi-year time horizon.

U.S. value

After four consecutive quarters of positive returns, U.S. stocks lost some steam in the third quarter of 2023. The market may be signalling that the economy is finally ready to slow. The brakes are being pressed harder than ever before. Following the series of aggressive Fed rate hikes, new economic dampeners emerged. Bond yields surged and mortgage rates spiked, hitting multi-decade highs and approaching 8%. The price of oil jumped, and the U.S. dollar strengthened. Individually and collectively, these present meaningful challenges to economic growth.

Given the latest economic speedbumps, the Fed should be done raising rates. But until we see more definitive signs of meaningful loosening in the labour market, the Fed may not be done. Other potential risks to the inflation battle include higher energy costs and the United Auto Workers strikes. Extended labour disputes could impact auto production, leading to another round of new and used car price inflation. We are also mindful that recent events in the Middle East are not only creating uncertainty for financial markets but may have the potential to disrupt global energy and commodity prices. With these factors in mind, we believe expectations for rate cuts in 2024 have eased. ■

Putnam INVESTMENTS

Key expectations

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- ✓ From a macroeconomic perspective, inflation could remain a key focus of the Fed's policy decisions.
- ✓ The financial burden for many consumers is increasing as pandemic-related benefits wind down, as we are seeing nascent signs of stress for lower-income borrowers, including in auto financing and credit card debt.

Portfolio positioning:
Following value's relative underperformance over the recent year, we are seeing some exciting opportunities in terms of valuation. Many companies that operate in more cyclically oriented industries are already trading at valuation multiples that appear to be assuming an economic slowdown. These types of investments offer intriguing opportunities if the macroeconomic picture is not as dire as assumed, or if our research has uncovered the potential for company-specific developments to present an opportunity for a valuation re-rating.

U.S. equities

Leadership in U.S. equity markets reversed yet again in 2023. In our view, this movement reinforced the unsuitability of managing risk with style boxes (investment options categorized by stock or portfolio-level characteristics). The Russell 1000 Value Index beat its growth counterpart by a near-record 21.6% in 2022. The trend switched in 2023 with growth outperforming value by 26.3% through August. Such a large, abrupt shift has not occurred since 1999-2000.

Inflation expectations are affected by the Fed's commitment to tighter monetary policy. Analysts tend to offer a wide range of views on the source of inflation. However, there is more consensus on how to lower inflation, which is through the Fed raising interest rates and unwinding its balance sheet. It takes political willpower to tighten monetary policy and slow down the economy, resulting in higher unemployment. Still, after considering recent central bank actions, it is possible the Fed could continue tightening if inflation rebounds.

The U.S. economy has faced a labour shortage, exacerbated by Baby Boomers retiring more quickly than they are replaced by younger generations entering the workforce. In the long term, a decreased labour supply could spur technological innovation and enhance employee productivity. ■

ARISTOTLE

Key expectations

- ✓ While direct U.S. trade with China and Russia may slow, it will likely pick up with other countries, including India, Thailand, Indonesia and Brazil.
- ✓ Analysis of birth and marriage rates, family size and mortality can help determine demographic patterns used to estimate demand for goods and services.
- ✓ The number of middle-aged households are set to decline, while the elderly population will increase dramatically. Middle-aged consumption priorities differ from other age groups.

Portfolio positioning:
We do not believe that the markets are in a "tech bubble". However, we believe there are signs of excess, and that the prudent investor should examine the concentration of the S&P 500 Index.

*This investment manager is only available for individual fund mandates on the Canada Life shelf. The individual fund mandates may vary slightly from group retirement savings and investment-only funds.

International equity

We believe that earnings drive long-term share prices. During seven global earnings recessions in the past 50 years, global earnings per share fell by more than 20 percentage points from their peak. Our observations from recent corporate earnings suggest a sustained decline is underway. With this in mind, a key concern from investors is about the depth of a possible economic and earnings recession.

High-quality companies typically perform well when global economic growth slows. Even recessions come to an end, and then it is good to be in a position that has a longer-term perspective. Our philosophy and approach to investing continues to be that time in the market is more important than timing the market. Therefore, we identify quality companies and are patient over the longer term.

Equity market conditions seem unclear for short-term investors, as it is challenging to factor in the eventual monetary easing and the advantage stocks with pricing power have when facing inflation. We believe the key data points are real, not nominal, returns as well as real, not nominal, purchasing power.

WORLDWIDE
ASSET MANAGEMENT

Key expectations

- ✓ Generative AI could have significant implications for long-term stock pickers.
- ✓ Decarbonization faces a dilemma. Higher financing rates could make capital-intensive new energy systems unaffordable without government subsidies.
- ✓ The global economic structure continues to shift from unipolar, with one superpower, to multipolar. It will be important to monitor this thematic transition and the related winners of geopolitically-driven reshoring.

Portfolio positioning:
Longer term, while our portfolio companies are not immune from cyclicality, in the event of a global recession, we would expect the overall portfolio's earnings growth to remain relatively robust, given our strong exposure to secular growth trends.

*This investment manager is only available for individual fund mandates on the Canada Life shelf. The individual fund mandates may vary slightly from group retirement savings and investment-only funds.

International equity

U.S. management of China's access to high-end chip-making tools for national security interests could impact information technology stocks in China, Asia and the U.S. Tighter controls on AI-related chip sales were anticipated by the market. In response, heavy investment in tech research is creating opportunities in China. The new Huawei smartphone, the Mate 60, was surprisingly based on advanced 7nm technology. It will be fascinating to monitor this heavyweight competition in the information technology sector.

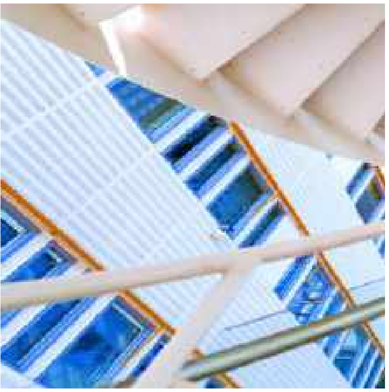
The U.S. offered economic incentives to persuade semiconductor companies to relocate production to the U.S. However, even with these benefits, production in the U.S. will still be significantly more expensive than in Taiwan or Korea. Morris Chang from Taiwan Semiconductor Manufacturing Co. Ltd. has been quoted as saying that chip prices in the U.S. might be twice as high as in Taiwan, which will have a negative impact on inflation.

China's economy faces structural problems. Debt is a concern, but not enough to expect a steep downturn. China recently implemented pro-growth policies to address youth unemployment. We believe China could transition from an investment-driven economy to a more consumption-driven one.

WORLDWIDE
ASSET MANAGEMENT

While some label China "un-investable," we hold a different perspective. We believe China offers "pockets of growth" and presents exciting investment opportunities. However, we must stress that being on the right side of politics has always been important in China, and political support has helped us identify areas of growth. Therefore, we are monitoring the negative impacts of an increasingly state-controlled backdrop on companies' ability to generate profits, as well as any adverse actions by the Chinese government concerning the desired reunification with Taiwan. ■

International equity



Considering international market valuations across the style spectrum, the growth end of the market has given back some premium versus value since the end of 2021. But it still looks elevated, particularly in the context of real interest rates being higher than at any point during the previous cycle. There is credibility to the case for higher real interest rates this cycle in response to tighter labour markets, higher budget deficits, the global economy's higher capex intensity, slower reserve accumulation in the developing world and a slowing in the upward skew of U.S. income distribution. However, it will be prudent to assess risk to valuations if the current real rate environment persists or deteriorates. In this case, a plausible scenario is not just that valuation spreads normalize back to previous cycle averages, but that they narrow much more than the previous cycle. This dislocation led us to opportunities in banks and to trim longer duration and higher growth in favour of cheaper parts of the market alongside banks, for example, oil and gas.

J.P.Morgan Asset Management

Key expectations

- ✓ Some market areas look vulnerable from a valuation perspective if interest rates don't retrace back to the levels from most of the previous cycle.
- ✓ Generative AI should be positive for equities if enterprises harvest substantial labour cost savings and labour productivity gains.
- ✓ Although international markets have no equivalent to Nvidia, companies in the semiconductor and software industries are set to facilitate and benefit from AI.

Portfolio positioning:
The structural trends of better corporate governance and macroeconomic developments led us to re-consider Japan in our portfolios.

International equity

We believe Japan's unfolding transformation presents one of the most compelling opportunities for investors in over 20 years. The opportunity has been mainly driven by efforts to improve corporate governance, with companies adopting higher standards and doing more to improve dividends and share buybacks. We are starting to see signs of improvements in the domestic economy, supported by inflation and wage hikes. Progress by Japanese companies in reducing bloated balance sheets, selling cross-share holdings and divesting non-core businesses could be powerful drivers of equity returns.

A resurgence of inflation would likely be negative for risk assets as it would keep central banks in tightening mode and could induce a recession. Further interest rate increases could also erode equity valuations. Europe, Australasia, and the Far East (EAFE) equities are better positioned relative to U.S. equities, given the respective starting points in terms of valuation and due to sectoral composition. The EAFE universe has a higher weighting to commodity-related sectors, which could be a source of inflation, and the financials sector, which benefits from interest rate rises.

J.P.Morgan Asset Management

There has been progress in the shift to reduce reliance on China by shifting supply chains closer to home. However, this could be a multi-year trend as a significant volume of trade is still conducted between China and the U.S. despite strategic policies surrounding technology exports. Companies are unlikely to fully reverse their just-in-time inventory strategy as the cost to finance these inventories rose significantly over the last two years, given the interest rate environment. ■

Emerging markets equity

Within the emerging markets universe, we remain steadfastly focused on investing in high-quality companies that target large structural growth opportunities within our most preferred sovereigns. Historically, companies meeting these criteria have outperformed the emerging markets benchmark. Geographically, we identify the best opportunities in our preferred emerging markets sovereigns as India, Mexico, Indonesia, Korea and Taiwan. However, we remain cautious and underweight on lower-quality emerging markets sovereigns like China, Turkey and South Africa.

In the first half of 2023, emerging markets inflation rates dropped significantly following prior surges in raw material prices influenced by monetary and fiscal policy and supply chain disruptions. Many central banks in emerging markets raised rates to manage inflation and bolster their currencies. As inflation eased, some central banks were able to cut rates before their developed market counterparts.

NORTHCAPE CAPITAL

Key expectations

- U.S. foreign policy decisions impact global risk premiums. The U.S. 2024 election could reshape U.S.-China ties, tensions in the Taiwan Straits, the Russia-Ukraine conflict, NATO support and Middle East involvement.
- Despite the Fed increasing short-term rates and inflation persisting, the U.S. economy remained resilient.
- Recent conflict in the Middle East highlights the region's volatility and an escalation could lead to major disruptions in global oil supplies.

Portfolio positioning:
Sector-wise, we are optimistic about prospects in information technology, financials, consumer staples and consumer discretionary as well as the telecommunications, and infrastructure segments.

Emerging markets equity

Rate cut continuity hinges on sustained inflation reduction. Goods inflation has declined as supply chains stabilized and demand decreased. While services inflation has been slower to adjust, signs of decline have emerged. Gradually reducing economic stimulus also helped to moderate inflation. The impact of weaker commodity prices on emerging markets is country specific. Countries like Taiwan, Korea and India benefit from decreased raw material prices, but overall sensitivity to commodity prices varies, with some countries adversely impacted and others benefiting.

We believe that the U.S.-China trade relationship has been in structural decline for more than a decade. China is one of the only issues with broad bipartisan support in the U.S., which means that – absent a major political upheaval in China – the bilateral relationship is unlikely to improve.

One ongoing repercussion of the decline in U.S.-China relations is a rebalancing of global supply chains, which will likely result in lower Chinese economic growth and challenge Chinese risk assets. On the other hand, India, Mexico and Vietnam have experienced increased foreign direct investment flows. ■

NORTHCAPE
CAPITAL

Emerging markets equity

There are two primary reasons to invest in emerging markets: alpha and beta. Emerging markets are the regions where 'quant alpha' – excess returns achieved through quantitative investment strategies – is higher than in the U.S. or international markets due to large and deep, yet inefficient, markets. Emerging markets beta, or valuations, are attractive. In the past 20 years, emerging markets have been attractive to invest in as developing countries built up their economies. But they have lagged in the past five to 10 years.

Today's valuation looks attractive relative to the U.S., and is also moderately attractive relative to other international markets, including Canadian equities. The end of aggressive central bank rate hikes could be soon, and would likely weaken the U.S. dollar, which typically benefits emerging markets equities. As risk evolves in global equity markets, diversification becomes more important. Emerging markets have always played a key role in portfolio diversification in combination with developed markets. ■

MACKENZIE Investments

Key expectations

- ✓ We believe there is a contrarian value investing opportunity in emerging markets.
- ✓ As risk evolves in global equity markets, diversification becomes more important.
- ✓ We are positive that inflation can be controlled. And so, huge interest rate hikes could be behind us, which should boost beta in emerging markets.

Portfolio positioning:
We intentionally build an "all weather core style" strategy to best position the portfolio for long-term outperformance across various market conditions.

Global equity

Long-term capital growth remains the North Star for Capital Group. In a potentially less benign inflationary environment, this is as relevant as ever. Erosion of purchasing power in portfolios can be a quiet but disruptive force.

With this in mind, the underlying theme for us remains to lean into our investment process, researching companies across a broad global opportunity set. Deep, fundamental research provides us with a rich set of investment ideas, allowing us to be flexible and supporting the fund's resilience of over long periods.

As we look ahead, the macro backdrop looks less settled than usual. In our view, focusing on company features (rather than factors) may help navigate successfully through not just one particular, but various different environments.

CAPITAL GROUP™

Key expectations

- ✓ In our view, a company's features rather than factors will be more in focus.
- ✓ Erosion of purchasing power in portfolios could be a quietly disruptive force.
- ✓ We expect opportunities from various sources, including structural growth, changing industry dynamics and improving operating performance.

Portfolio positioning:
In our view, style, geography or sector are less important. Since capital is more constrained, companies that generate strong free cash flow, allocate capital thoughtfully and fund their own growth may be well-positioned to navigate a range of environments.

Global equity

CAPITAL GROUP™

From this vantage point, we continue to find companies that may benefit not just from a particular macro theme, but more broadly from features such as structural growth, changing industry dynamics, improving operating performance or shareholder-friendly capital allocation. Looking over a longer time horizon or across different industries can help identify underappreciated opportunities.

For example, some areas of interest revolve around the long-term implications of new treatment opportunities for broad-based health concerns, including obesity and diabetes. Other examples relate to disruption within the semiconductor space as well as the ongoing shift towards electrification. Opportunities here may stretch across a broad set of sectors, including information technology, energy, materials and industrials. And improving operating performance and shareholder-friendly capital allocation are features we can find across sectors and geographies. ■

Global equity

Global equity markets are coming to terms with a higher interest rate environment. However, it is still unclear whether central banks have done enough to slow economies. U.S. jobs data was robust in 2023, while European and Asian inflation remained high. Should these trends extend into 2024, we expect interest rates to increase or at least stay higher for longer. We are concerned about companies with too much debt, which may need to re-finance at much higher levels. Business models that are not designed for a higher interest rate environment will likely be most affected. Nonetheless, many companies recovered strongly from the pandemic. Market returns could be reasonable in 2024, but performance will depend on how the global economy reacts to higher interest rates for longer.
We believe higher-quality businesses and companies with less debt will prosper and take advantage of distressed, over-leveraged competitors.

All companies will be affected by higher interest rates should they stay higher for longer either through higher interest costs or lower demand. However, we prefer companies with more durable finances and customers that demonstrate organic need for the products and face a high cost or risk to switch to a new supplier. We will look for these types of companies across the eight sectors that the Fund invests in. We remain wary of banks given their exposure to bad debts in a global downturn, and we would be wary of companies in more cyclical sectors like materials and energy. ■

SETANTA
Asset Management

Key expectations

- ✓ Companies may need to pay much more interest, may not get as much debt and may have to issue more shares, which could be detrimental to shareholders.
- ✓ Resolutions to the Russia-Ukraine and Middle East conflicts would support global investor sentiment.
- ✓ We expect growth in North America to outpace that in Europe. We expect continued problems in Asia and anticipate some opportunities in Japan.

Portfolio positioning:
A portfolio of companies with less debt or no debt works well in a high interest rate environment.

Sector equity

Tight labour markets and elevated wage growth across major economies contributed to inflationary pressure in 2023, despite aggressive efforts by central banks since early 2022. Market consensus consistently misestimated the course and magnitude of inflation. While most major economies appear to be past peak inflation, the risk of inflationary shocks over the next decade has increased. Once inflation is embedded, it can remain a stubborn, cyclical challenge for years. In our view, the prospect of negative supply-side shocks – which unexpectedly reduce growth and raise inflation – could be favourable for real assets.

At the start of 2023, real asset valuations were attractive relative to broad global equities. With real assets lagging global equities as of October 2023, that relative valuation spread has increased in attractiveness, favouring real assets. During stagflation, when growth slows and inflationary risk is elevated, real assets have historically protected capital, in contrast to stocks and bonds.

Not all real assets have the same sensitivity to interest rates, an important consideration in top-down asset allocation. We are closely monitoring the repercussions of higher financing costs and tighter financial conditions across the real assets universe. For select areas with exposure to credit markets, we continue to focus on companies that have strong balance sheets, with limited near-term maturities and manageable refinancing schedules. Additionally, while "higher for longer" interest rates may be a challenge for certain sectors, many of the businesses we invest in have the ability to pass rising costs along to consumers. ■

COHEN & STEERS

Key expectations

- We believe the global economy has shifted from a **disinflationary** regime marked by low interest rates, low inflation, and persistent oversupply to **secular stagflation** marked by slowing growth and elevated inflationary risks.
- Investors who increased real asset allocation to lift their portfolio's sensitivity to inflation will be reluctant to reverse course if inflation persists.
- Diversification will be increasingly important for investors as they navigate their asset allocation decisions in 2024.

Portfolio positioning:
The traditional 60% equity/40% bond portfolio may not perform as well as in the past.
By incorporating a larger allocation to real assets, we believe investors will likely benefit from improved risk adjusted returns.

*This investment manager is only available for individual fund mandates on the Canada Life shelf. The individual fund mandates may vary slightly from group retirement savings and investment-only funds.

Sector equity

Population growth fuels demand based on where people live, work and play. More than a million people arrived in Canada in 2022, with 91% electing to reside in large urban areas. Robust infrastructure solutions that promote sustainable urbanization and densification are needed to absorb this demand.

The Bank of Canada and central banks globally embarked upon an unprecedented era of monetary policy tightening. Interest rate increases have had a profound impact on capital market conditions, consumer confidence and, ultimately, the economy. A stabilized interest rate environment will help restore market certainty and investor confidence, and will be conducive to strong transaction formation and performance.

The housing market in Canada has been chronically challenged by a lack of supply and affordability. Robust near-term immigration programs and the BoC's rate tightening policy are exacerbating these issues in the near term. A growing consensus has developed that supply-based solutions are key. A lack of labour, protracted municipal approval processes and elevated capital costs limit the construction of supply solutions. These factors combine to uniquely position purpose-built rentals as a meaningful interim solution. ■

GWL REALTY ADVISORS

Key expectations

- ✓ In our view, arguments for the demise of the office as an asset class were premature. The return of offices as a central hub could stabilize the market, even though the scale of vacancies to fill would mean a protracted recovery.
- ✓ The real estate sector represents 40% of global greenhouse gas emissions. Canada's success in meeting its greenhouse gas (GHG) targets will require industry co-operation and aggressive legislative and regulatory initiatives.
- ✓ Real estate houses the wider economy. Related market confidence will be pivotal to fuel economic expansion across all asset classes.

Portfolio positioning:
Outsized allocations to the industrial and multi-family sectors have provided exposure to favourable market fundamentals and created resilient performance.

Responsible investing

Environmental, social and governance (ESG) investing is, at its core, about data and information. How this data and information is used, and for what objective, can differ widely, as there is not a universally defined set of sustainability criteria. However, a failure to differentiate has led to some misconceptions – for example, that ESG integration is about saving the world, or that exclusionary investing is the only way to deliver sustainable outcomes.

Investors are beginning to understand the difference between ESG strategies targeting innovative solutions with the potential to benefit from the transition to a more sustainable future, and strategies that exclude companies purely based on values or political views. In addition, there is a greater recognition that investing in the low-carbon transition does not mean having zero exposure to fossil fuels.

J.P.Morgan
Asset Management

Bonds are back, and green, social and sustainable (GSS) bonds are no exception. With inflation falling, global central banks nearing the end of tightening cycles and duration offering diversification benefits, opportunities are emerging in fixed income – and green, social and sustainable bonds are no exception. The Bloomberg Global Aggregate Green Social Sustainability Bond Index even outpaced the Bloomberg Global Aggregate Index over the 12-month period ended July 31, 2023. In the first half of 2023, there was US448 billion of GSS debt, with the market on track to hit US$5 trillion in combined issuance at the end of 2023.[1]

[1]Climate Bonds Initiative, H1 Market Report

Responsible investing

Appetite for investing in a more sustainable future continues to grow, and growth in sustainable investing should continue despite market volatility. As well as capital flows, the broader economy's alignment – including corporate activity – to green and sustainable-focused policies is a key development in Europe. We expect similar alignment in the major Asian markets, which may serve as a critical growth catalyst for the sustainable investing market in the region. Recent policy measures, such as the U.S. Inflation Reduction Act and the European Union's Green Deal Industrial Plan, mean that attractive investment opportunities can be expected to encourage companies and investors to redirect capital to more sustainable businesses.

The momentum created by supportive industrial policy is partly shown by the fact that clean energy investment now far outpaces investment into fossil fuels and continues to increase.[2] Policy support is also correlated with an increase in announced projects for potential decarbonization solutions like hydrogen and carbon dioxide capture and storage. The impact of these policies supports the idea that well-designed climate policy and government spending can boost economic growth and unlock investment opportunities. Estimates as of August 2023 suggest there is US$278 billion in new private clean energy investments, spanning 272 new clean energy projects and accounting for roughly 170,000 new jobs.[3]

J.P.Morgan
Asset Management

Responsible investing

The energy transition will continue to have an impact on inflation, but failing to adapt to the climate crisis will be even more inflationary. We need to acknowledge that the transition to an economy powered by clean energy is likely to have some inflationary impact, given robust fiscal support and the high level of new investment flowing into wind and solar, as well as electric vehicles. But it is also crucial to recognize that if the world fails to act on adapting to climate change, the effects could ultimately be even more inflationary.

For example, extreme weather events place multiple extra stresses on the economy, squeezing the supply side by disrupting labour markets, natural ecosystems and core infrastructure. The result is that operating costs in many sectors, including construction, real estate and agriculture, will increase as companies look to enhance climate resilience and, in cases where climate adaptation is low, compensate for labour losses or damage to assets.

There is no silver bullet solution to these challenges, but policymakers have an important role to play in encouraging investment and financing climate adaptation projects. For investors, gaining exposure to the adaptation theme will be crucial, not only from a risk management standpoint, but also to capture the opportunities from investing in new climate-resilient solutions. ■

J.P.Morgan Asset Management

Key expectations

- ✓ In terms of climate data, AI-based machine learning could help to bridge gaps in corporate emissions disclosures or enhance climate risk stress testing models.[4]
- ✓ AI can be used for hazard forecasting and improving early warning systems using satellite imagery.[5]
- ✓ AI is emerging as a practical tool to help companies with difficult aspects of decarbonisation and reducing energy consumption at cooling data centers.[6]

[2] IEA, Clean energy investment is extending its lead over fossil fuels, boosted by energy security strengths (May 2023)

[3] Rocky Mountain Institute, It’s the IRA’s First Birthday, here are five areas where progress is piling up (August 2023)

[4] Amundi, Artificial Intelligence and ESG: How do they fit? (October 2022)

[5] LSE, What opportunities and risks does AI present for climate action? (July 2023)

[6] Google DeepMind, DeepMind AI Reduces Google Data Centre Cooling Bill by 40% (July 2016)

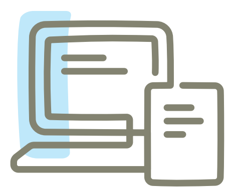
Executive summary

Insights to expand your business

In 2024, financial markets will need to absorb rising government and personal debt. Higher interest rates are set to detract from consumer spending power and weigh on high-ticket item sales and, in turn, corporate earnings. Although the risk of a steep slowdown in the U.S. may be less acute than earlier in 2023, many economic indicators still point to a mild recession or at least a growth slowdown in 2024. Bond yields surged and prices declined in 2023 as the market was impacted by new government debt issuance. It will be important to carefully consider the market fundamentals that could guide fixed income allocations in 2024.

The narrative of uncertainty has become a 'staple diet' for investors to digest as they look to allocate resources within their portfolios. In this context, demand for lower cost solutions, liquid alternative funds and passive investments continue to garner strong interest. In some markets, traditional portfolio positioning may no longer be the optimal recommendation but we have the insights to help your clients make well-informed decisions.

Guiding your clients to achieve their long-term financial ambitions is likely to be even more challenging, given market expectations for more modest growth levels. Let us lighten your workload by providing timely market updates directly to your inbox. Kickstart each week with essential insights, saving you valuable time and effort as you direct clients through market fluctuations. ■



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2024 Market Outlook

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