Quarterly Asset Allocation View

Q1 2024

Multi-Asset Solutions Team





Key Global Themes

US. Recession: the worst-case scenario for markets?

- We expect the U.S. economy to post two consecutive quarters of negative GDP growth, but regardless of whether we meet the technical definition of a recession, lending activity, consumer spending, capital investment, and corporate earnings are likely to weaken in the coming six months.
- This next recession could be different: Continued resilience in the labor and housing sectors as well as signs of
 a recovery in the manufacturing sector could limit any expected negative impact on growth. Financial markets,
 which are forward-looking by nature, may well ignore what's in front of them and look straight through to the
 recovery on the other side of the recession.
- A soft landing in which growth slows but remains positive may create a more challenging environment for markets, particularly if such an outcome encourages central banks to remain hawkish. In this scenario, economic growth could stagnate and might remain below 1% for a prolonged period, leading to a more difficult environment for investors.

U.S.:

We may be forecasting a U.S. recession; however, active asset allocation processes aren't based on absolutes.
 Rather, they're based on the concept of relative values and opportunities. In that sense, we believe the U.S. markets continue to offer better opportunity for investors as global growth slows. The U.S. economy continues to benefit from a resilient consumer, a strong labour market, and slowing inflation.

Europe and other Developed Markets:

• 2024 could be challenging for Europe as the region confronts weakness in both its services and manufacturing sectors. Growth in developed economies such as Canada and Australia may be capped because they tend to be more sensitive to elevated interest rates.

Emerging markets:

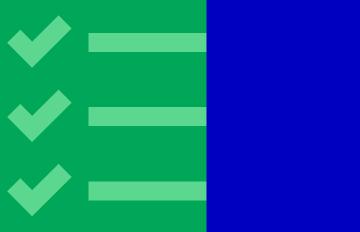
• Emerging-market economies could also struggle under the weight of higher oil prices, slower Chinese growth, and a strong U.S. dollar. That said, the current negative sentiment toward Mainland China may be overdone, creating some near-term tactical opportunities.

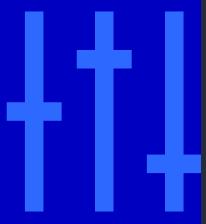


Asset Class Overview











1 Asset Class Overview



Broad Asset Class Outlook

Current outlook • Represents previous quarter		Underweight	Neutral —	Overweight
Broad Asset	Equities			•
Classes	Fixed Income	•		

Overweight equities

• We have an overweight stance on equities, driven by consumer resilience, continued support from corporate earnings, and seasonal strength. The recent pullback in the market and the potential end of the global rate-hiking cycle are also supportive of our view of the asset class. Recessionary pressures and unfavorable valuations relative to fixed income, however, are risks to this view.

Cautious on high-yield credit

Within fixed income, we see less value in high-yield credit and believe that recession risks have been underpriced
in that segment of the market. In our view, investors aren't adequately compensated for the shift down in quality,
particularly in light of the yields that are on offer in the investment-grade space.



Source: Multi-Asset Solutions Team (MAST), as of 13 November 2023. Projections or other forward-looking statements regarding future events, targets, management discipline or other expectations are only current as of the date indicated. There is no assurance that such events will occur, and if they were to occur, the result may be significantly different than that shown here. Information about asset allocation view is as of issue date and may vary. 1Active asset allocation views will be updated on a quarterly basis.

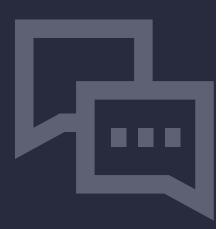
2 Asset Allocation View

Active Asset Allocation Views¹

 Represents previous quarter 	Underweight	Neutral	Overweight
Asset class: Equities			
United States			•
Canada	•		
Non-U.S. developed markets		•	
Europe	•		
Emerging Markets	•		
U.S. small cap			•
United Kingdom	•		
Japan			•
Emerging Latin America			•
APAC ex-Japan		•	
Mainland China	•		
Hong Kong	•		
Real estate investment trusts	•		
Infrastructure		•	
Commodities		•	
Asset Class: Fixed Income			
U.S. investment grade		•	
Canadian investment grade		•	
Asia investment grade		•	
U.S. high yield		•	
Asia high yield		•	
Leveraged loans	•		
Emerging-market debt			•



3 Equity View





Broad Equity:

- We have an overweight stance to U.S. equities, a neutral view on U.S. small cap, emerging-market equities, and non-U.S. developed markets equities, and an underweight in European equities.
- In our view, the United States continues to be the most resilient market globally, supported by a robust labor market and consumer strength. That said, things may change as excess savings are depleted. In terms of sectors, we **favour growth stocks over defensive stocks**.
- At the other end of the spectrum, we continue to see Europe as the least-attractive major equity market due to macroeconomic headwinds, including weakness in both the services and manufacturing sectors, along with tight credit standards. That said, corporate earnings in the region remain robust and valuations are discounted relative to global equities.

Regional/Sector-specific Equity:

- We continue to overweight Japanese equities. Dovish monetary policy relative to the rest of the
 developed world, a favorable fundamental picture, and a renewed corporate focus on shareholder value
 are factors that are supportive of the asset class.
- We see potential near-term tactical upside for Chinese equities as negative sentiment has, in our
 view, become overblown, and markets could benefit from the lagged effects of incremental policy easing.
 Generally speaking, equity valuations in Asian markets tip toward the favorable side of the equation.
- Despite an improvement in our view of Asian equities, we believe emerging Latin American equities
 continue to offer a more favourable way to find exposure to emerging markets, driven by macroeconomic
 strength.

3 Fixed Income





Fixed Income:

- We've retained our **overweight stance on emerging-market debt**, driven by strong foreign exchange reserves, positive sovereign debt trends, and elevated spreads relative to U.S. corporate high yield.
- We have a **preference for investment-grade credit** relative to high-yield credit due to deteriorating profit margins and debt coverage metrics that we're seeing in the high-yield space.
- We are neutral on U.S. investment grade, Asian investment-grade and Asian high-yield debt, and underweight U.S. high yield and leveraged loans.



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