

## Commentary

### ECONOMIC OUTLOOK

- Higher interest rates and tightening credit standards will continue to slow US GDP; only 1% growth expected in 2023
- Canada GDP also slowing with elevated rates and weaker housing; less than 1% or recession expected this year
- EU/UK economies trending down to under 1% growth in 2023; more rate increases to come as inflation still near 10%
- Growth in China recovering from weakness last year; COVID restrictions reduced, and fiscal stimulus expanded to support economy

### INTEREST RATE/INFLATION OUTLOOK

- US and Canadian short term rates at 4.75% – 5.00% and 4.50% respectively
- US rates increased 50 bp so far this year; expect 25 bp more in 2<sup>nd</sup> Q; Federal Reserve wants to get rates over 5%
- Canadian rates increased by 25 bp in 1<sup>st</sup> Q; rate increases near completion
- US yield curve inverted with 2 year rates higher than 10 year bond rates; slowdown or recession coming

### ASSET MIX OUTLOOK

- Favoured equity markets (in order): US, Canada
- Maintaining lower equity weightings until rate increases end in 1<sup>st</sup> H
- Bonds now more attractive at current yields with economy slowing and inflation numbers improving

### MARKET OUTLOOK

- Higher interest rates have caused asset valuation and deposit problems at US regional banks in 1<sup>st</sup> Q; markets are concerned and watching closely to see if this causes further damage to the banking system and economy
- Inflation has declined over the last year to 5-6% level; housing, leading indicators and lower money supply pointing to continued decline
- Corporate profits in North America likely to be weaker as economies slow in 2<sup>nd</sup> H of the year
- Oil prices stronger with recent production cuts but volatility will continue
- C\$ 0.72 – 0.74 range vs. US\$ in 2<sup>nd</sup> Q
- Focusing on Canadian dividend paying equities, US growth equities and Canadian corporate bonds