

Commentary

ECONOMIC OUTLOOK

- US GDP slowing with continued higher interest rates and credit standards; only 1-2% growth expected in 2023
- Higher mortgage rates hurting housing and GDP in Canada; 1-2% growth also expected this year
- EU/UK economic growth declining with lower manufacturing and elevated inflation
- China recovery in question; more government stimulus required into 2024

INTEREST RATE/INFLATION OUTLOOK

- US and Canadian short term rates at 5.25% – 5.50% and 5.00% respectively
- US rates increased 100 bp so far this year; maybe 25 bp more
- Canadian rates increased by 75 bp year to date; increases near completion
- Yield curve in both countries 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 are finished
- Bonds now more attractive at current yields with economy slowing and inflation numbers improving

MARKET OUTLOOK

- Market focused on the Federal Reserves hawkish position of holding rates at current high levels for longer, in order to slow growth and inflation.
- Inflation has declined over the last year from 9% to 4% level; weaker housing, lower consumer confidence and retail sales pointing to continued decline
- Corporate profits in North America have been better than expected in 1st H but could slow in 2nd H of the year
- Oil prices close to \$90 with Saudi Arabian and Russian production cuts
- C\$ 0.72 – 0.74 range vs. US\$ in 4th Q
- Focusing on Canadian dividend paying equities, US growth equities and Canadian corporate bonds