

Commentary

ECONOMIC OUTLOOK

- US GDP continues to slow with higher interest rates; only 1% growth expected in 2023
- Canada GDP also slowing with higher rates and housing weakness; 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 near 10%
- Growth in China expected to recover from under 4% in 2022; COVID restrictions now being reduced, and fiscal stimulus increased to support economy

INTEREST RATE/INFLATION OUTLOOK

- US and Canadian short term rates at 4.25% – 4.50% and 4.25% respectively
- US rates expected to increase another 50 – 75 bp in 1st Q; Federal Reserve wants to get rates over 5%
- Canadian rates expected to increase only 25 bp in 1st Q; rate increases near completion
- US yield curve now inverted with 2 year rates higher than 10 year bond rates; slowdown or recession coming

ASSET MIX OUTLOOK

- Favoured equity markets (in order): Canada, US
- Maintaining lower equity weightings until rate increases end in 1st H
- Bonds now attractive at current yields with inflation rolling over
- Fixed Income expected to outperform equities in 1st H of 2023 with equities better in 2nd H

MARKET OUTLOOK

- Markets concerned that further rate increases to slow inflation will cause recession and weaken corporate earnings
- Inflation has fallen from mid 2022 and will continue to decline in early 2023; housing, commodity prices and leading indicators already down
- Corporate profits in North America likely to be revised downward in 1st Q with slowing growth
- Oil prices to be volatile as demand slows with weaker economy but supply remains restricted
- C\$ 0.72 – 0.74 range vs. US\$ in 1st Q
- Focusing on Canadian dividend paying equities, US growth equities and Canadian corporate bonds