Quarterly Outlook: Remain OW Equities, UW Bonds, and UW Cash

In this note, we discuss our outlook for the global economy and the recent asset allocation changes the committee recommends for the next 12-18 months.

Key takeaways:

- **IMF revises global economic growth higher for 2021/2022** - The IMF is now projecting global growth will accelerate by 6.0% in 2021, moderating to 4.4% in 2022. The projections for 2021 and 2022 are stronger than their October 2020 forecasts by 0.8% in 2021 and 0.2% in 2022, which reflects additional fiscal support in a few large economies, the anticipated vaccine-powered recovery in the second half of 2021, and continued adaptation of economic activity to subdued mobility.

- **Global economic indicators continue to suggest better days lay ahead** - Global industrial production has continued to strengthen recently, with global merchandise trade returning to pre-pandemic levels, helped by the strong demand for IT equipment and medical supplies. While business investment has also picked up sharply in recent months, the rebound in labour markets has been mixed globally, with still further ground to make up to return to pre-pandemic levels. That said, we believe strong progress has been made and expect momentum to pick up heading into H2/2021.

- **US and Canadian economic growth expected to rebound sharply above-trend in 2021-** Raymond James Chief Economist Scott Brown expects a strong rebound in consumer services to drive GDP growth (+5.6% in 2021 vs. the 30-year historical average of 2.3%), with fiscal stimulus ensuring the recovery in 2022. He also expects inflation to inch moderately higher in the near term (with 2Q21 numbers reflecting a rebound from low figures in 2Q20). In Canada, we expect the slow progress on vaccinations and renewed lockdowns following a third wave of COVID-19 to likely hold back the economic recovery in the first half of 2021. However, we expect robust fiscal support provided to date, highly accommodative monetary policy, and strong gains in commodity prices, to bode well for the outlook in H2/2021. The consensus expectation for real GDP growth in Canada is 5.0% in 2021 (versus the 30-year average of 2.0%).

- **Risk/reward in favour of North American equities over bonds -** Companies are benefiting from a strong recovery in spending and employment trends, coupled with elevated fiscal and monetary support from policymakers. For the S&P 500 and S&P/TSX indices, current consensus expectations are implying earnings growth of 27.0% and 59.0%, respectively in calendar year 2021, which remains well ahead of historical growth rates over the past 10 years. Valuations are modestly higher relative to historical levels for the S&P 500 index but below historical averages for the S&P/TSX index. With the Federal Reserve (Fed) and Bank of Canada (BoC) showing little inclination to push back on rising yields, we believe there remains a higher risk than reward for fixed income at the current impasse.

Please read domestic and foreign disclosure/risk information beginning on page 7

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Above-Trend Growth on the Horizon

It was just over a year ago that we stared into the abyss after the World Health Organization (WHO) declared the COVID-19 outbreak a pandemic (March 11, 2020), with the global economy heading into full lockdown mode shortly after. But now, the combination of ongoing global policy support and the accelerating pace of vaccine distribution has helped to create a high level of optimism as we look forward to the economic reopening. Importantly, we expect the global economy is set to experience an extended period of above-trend global growth in 2021/2022 thanks to extremely stimulative and accommodative monetary and fiscal policies with consumers across most of the developed world economies well positioned to boost their consumption following a period of elevated savings.

IMF Raises Global Growth Outlook

The global economy is projected to accelerate at its fastest pace in several decades powered by record stimulus (+$12 trillion in fiscal actions and about +$7.5 trillion in monetary actions as of September 2020) according to the International Monetary Fund (IMF). We believe solid progress on COVID-19 vaccinations, and excess consumer savings across most developed world economies should result in a robust recovery in the years ahead. Consistent with this view, the IMF has raised their outlook for global growth from their October projections, which reflects additional fiscal support in a few large economies, in particular the US, the anticipated vaccine-powered recovery in the second half of 2021, and continued adaptation of economic activity to subdued mobility. For 2021 and 2022, the IMF is now projecting global growth to accelerate by 6% (+0.8% from October projections) in 2021, moderating to 4.4% (+0.2% from October projections) in 2022. However, we caution that the strength of the forecasted recovery will vary across countries, which will be highly dependent on the severity of the health crisis locally, the extent of domestic disruptions to economic activity, the exposure to cross-border spillovers, and the effectiveness of policy support to limit persistent damage.

Across advanced economies, we believe that regional restrictions, as we have seen in Ontario and across Europe recently, will likely be an ongoing and reoccuring theme as governments attempt to stem the progression of new strains of the virus and slow down surges in infection rates. As the vulnerable population gets vaccinated, contact-intensive activities are expected to resume and drive a significant pickup in growth thanks to pent-up demand funded by accumulated savings in 2020. The IMF is currently forecasting the US to lead the recovery across the advanced economies in 2021/2022 with year-over-year growth of 6.4% and 3.5%, respectively, with a sooner-than-expected return to end-of-2019 activity levels by H1 2021. In emerging markets and developing economies, China is expected to lead the way with 8.4% and 5.6% growth in 2021 and 2022, respectively. Effective containment measures, a forceful public investment response, and central bank liquidity support have facilitated a strong recovery in China, versus elsewhere in the emerging and developing markets. All said we expect that the recovery, unlike some headlines would suggest, to be uneven across global economies and dependent on the effectiveness of mass vaccination initiatives.

IMF: World Economic Outlook Projections

	Actual	Projections	
	2020	**2021**	**2022**
World Output	**-3.3**	**6.0**	**4.4**
Advanced Economies	-4.7	5.1	3.6
United States	***-3.5***	***6.4***	***3.5***
Euro Area	-6.6	4.4	3.8
Germany	-4.9	3.6	3.4
France	-8.2	5.8	4.2
Italy	-8.9	4.2	3.6
Spain	-11.0	6.4	4.7
Japan	-4.8	3.3	2.5
United Kingdom	-9.9	5.3	5.1
Canada	***-5.4***	***5.0***	***4.7***
Other Advanced Economies2	-2.1	4.4	3.4
Emerging Market and Developing Economies	**-2.2**	**6.7**	**5.0**
Emerging and Developing Asia	-1.0	8.6	6.0
China	**2.3**	**8.4**	**5.6**
India3	-8.0	12.5	6.9
ASEAN-54	-3.4	4.9	6.1

Source: IMF, Raymond James Ltd.

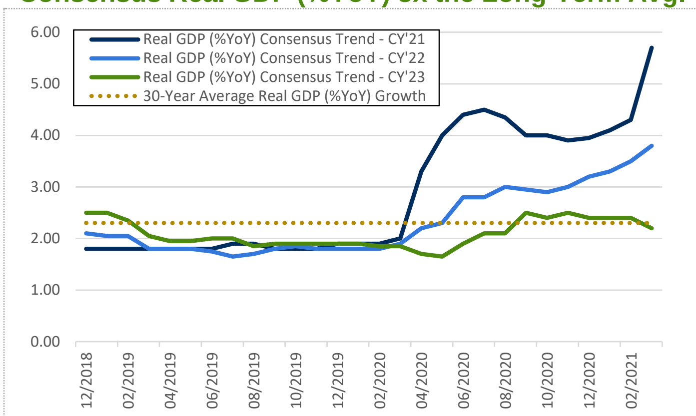
Global Economic Indicators Strengthening

The ISG has been monitoring global economic variables, which have improved noticeably over the past year and support its bullish outlook on the global economy over the next 12-18 months. Global industrial production has continued to strengthen recently, with global merchandise trade returning to pre-pandemic levels, helped by the strong demand for technology equipment and medical supplies. Business investment has also picked up sharply, despite continued near-term uncertainty and high corporate debt in some regions. Consumer spending, which drove the initial rebound in activity as economies reopened last summer, has remained broadly flat through Q4/2020, reflecting the resurgence of health concerns and the impact of renewed containment measures on retail and leisure spending. However, household savings rates sat well above pre-pandemic levels at the end of Q4/2020, providing support for future spending when economies begin to reopen in H2/2021. Consumer confidence, as measured by the consumer confidence index, has yet to recover in most countries. We believe that stronger progress in vaccine deployment will be needed to help restore confidence, improve labour market conditions and reduce precautionary saving. On the labour market front, the rebound has been mixed globally, with further room to go to close the employment gap. That said, strong progress has been made which we believe should also pick up momentum into H2/2021.

US Economic Outlook

Raymond James Chief Economist Scott Brown expects a strong rebound in consumer services to drive GDP growth (+5.6% in 2021 vs. the 30-year historical average of 2.3%), with fiscal stimulus ensuring the recovery in 2022. He also expects inflation to inch moderately higher in the near term (with 2Q21 numbers reflecting a rebound from low figures in 2Q20). With the Fed on hold, short-term rates are likely to remain anchored near 0% through 2022, with long-term interest rates trending higher, reflecting an improving economy. This view is consistent with the takeaways from the March Federal Open Market Committee (FOMC) meeting, where most participants agreed that the recent rise in rates were reflecting the improved economic outlook, some firming in inflation expectations, and expectations for increased Treasury debt issuance.

Consensus Real GDP (%YoY) 3x the Long-Term Avg.

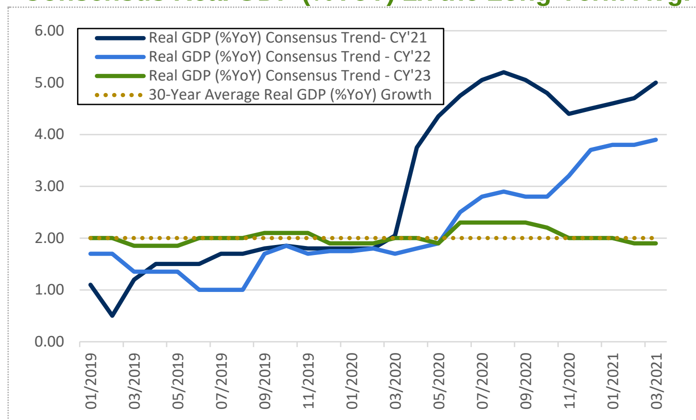


Source: FactSet, Raymond James Ltd.

Canada Economic Outlook

While we expect the slow progress on vaccinations and renewed lockdowns following the third wave of COVID-19 will likely hold back the economic recovery in the first half of 2021, we believe robust fiscal support provided to date, highly accommodative monetary policy, and strong gains in commodity prices, will bode well for the outlook in H2/2021. The current median consensus forecast for real GDP growth is 5.0% for 2021 and 3.9% in 2022, which is more than double the long-term historical growth rate of ~2% over the past 30 years. While 10-year government of Canada yields have advanced 80 basis points YTD-2021, we believe that the move higher has occurred due in part to higher growth and inflation expectations, and do not expect this move higher in yields will cause the BoC to begin hiking interest rates before 2023. The BoC believes that there continues to be considerable slack in the economy and a great deal of uncertainty over the evolution of the virus and the path to recovery. Also, CPI inflation is near the bottom of their 1-3% target band but is likely to move temporarily to around the top of the band in the next few months. That said, we expect continued policy support in 2021 and into 2022, with only gradual changes in stimulus measures over the next several years.

Consensus Real GDP (%YoY) 2x the Long-Term Avg.

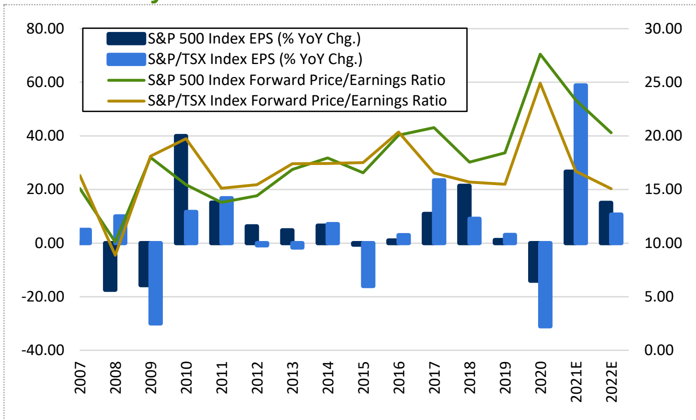


Source: FactSet, Raymond James Ltd.

A Robust Recovery in Earnings

US and Canadian corporate earnings are also expected to rebound strongly in 2021 and 2022 from the lows in 2020. Companies are benefiting from a strong recovery in spending and employment trends, coupled with strong fiscal and monetary support from policymakers. For the S&P 500 index, current consensus expectations are for earnings growth of 27.0% and 15.0% in 2021 and 2022, respectively. This compares to ~5% annual EPS growth over the past 10 years. In terms of valuations, while the S&P 500 is trading at 21.8x blended 2021/2022 earnings, above its historical 10-year average of 18.4x (or ~18% higher than the historical average), earnings expectations are 5x higher for 2021 and 3x higher relative to the long-term average. In Canada, the same remains true for the S&P/TSX index, but only stronger. Current consensus expectations are forecasting earnings growth of 59.0% and 11.0% in 2021 and 2022, respectively. This compares to ~1% average annual EPS growth over the past 10 years, which has been largely weighed down by weakness across commodity sectors. In terms of valuations, while the S&P/TSX is trading at ~16x blended 2021/2022 earnings, below its historical 10-year average of 17.5x (or ~9% below the historical average), earnings expectations are substantially higher for 2021 and 2022 relative to the long-term average, following what is expected to be a robust recovery in commodity markets. Even if these numbers are revised lower throughout the coming year, it's hard to ignore an asset class that is growing at a double-digit rate and trading at a reasonable valuation on a historical basis.

A Recovery in EPS and Still Attractive Valuations



Source: FactSet, Raymond James Ltd.

Risk/Reward - Equities > Bonds

We believe the economic backdrop remains robust, with equity fundamentals poised to surge higher with valuations attractive relative to historical estimates and forward earnings growth expectations well above long-term historical averages. Given this view, we believe we are in the very early innings of a bull market cycle, following the brief recession in 2020, and believe equities remain well-positioned to generate strong double-digit growth for investors, even if we assume valuation multiples compress towards historical levels over the next several years and/or if earnings expectations moderate from current levels.

On a relative basis, while fixed income has a purpose in portfolios as a store of value and to mitigate risk, sub-2% yields on government bonds in Canada and the US make them relatively unattractive especially given that the Fed and the BoC remain committed to keeping rates low while inflation runs hot temporarily above their 2% inflation target. Today, government bonds offer very little in the way of income and after inflation, investors are likely to earn a negative real rate of return. The equity markets on the other hand present investors with the opportunity to participate in the growing earnings, cash flow and dividends of a corporation, increasing the chance of earning a positive real return but with added risk.

Cash Offers a Negative Real Return

While cash is king in uncertain times, earning virtually nothing on cash holdings over a long period can result in a negative real return once inflation is taken into account. Even looking at other fixed-income categories reveals how difficult it is for investors to earn a real rate of return. To do so, investors are increasingly being pushed to either take on more risk via credit (corporate bonds), extend duration (moving further out on the yield curve) or consider an entirely different asset class. Maintaining an overweight cash position in this environment is a losing proposition in our view.

Asset Allocation Changes

Entering 2021 we were overweight equities and underweight bonds and cash, given our outlook that the worst of the COVID-19 economic slowdown was behind us. We continue to maintain this view and expect above-average growth in both the US and Canada in 2021/2022. Within equities, we have made no changes to our existing positioning from last quarter. In terms of investment style, we continue to recommend small- and mid-cap equities over large-caps and value over growth given attractive relative valuations. We are maintaining our overweight bias to cyclical sectors, which we expect to continue to benefit from a recovery in global growth as we move into the back half of the year. However, we will note that the committee is beginning to see compelling opportunities in defensive sectors in both Canada and the US following the strong sell-off over the past several months. We believe that investors can be selective in adding to high quality defensive names, which are trading at attractive valuations and expected to see earnings expand in years ahead. From a regional perspective, we are moving to an overweight in Canada (S&P/TSX Index) given higher total return expectations versus the US (S&P 500 Index) on a constant currency basis. Internationally we remain overweight, particularly in Japan, the UK, Italy and Mexico where we see attractive equity market valuations and an improving economic backdrop.

Within fixed income, we have moved to an underweight position in government bonds in Canada and the US, as the Fed and BoC have shown little inclination to push back on rising yields. We are maintaining our neutral stance on corporate bonds as we see more attractive opportunities relative to government bonds on both sides of the border. As it relates to duration, we expect that the Fed and BoC will likely keep short rates anchored near zero over the next couple of years despite the recent move in yields and inflation expectations, while letting long yields rise towards 2-3% before adjusting their policy stance. As a result, we are maintaining our overweight to short-duration fixed income, moving to a neutral weight on medium duration and maintaining an underweight to long-duration bonds (which are the most sensitive to rising yields). Debt instruments with floating rates (e.g., preferred shares) are another attractive option for income-seeking investors, as are some alternative investments.

Risk

The largest near-term risk is escalating inflation expectations. As the saying goes, don't fight the Fed (or in our case the BoC), because it's likely that both central banks continue their QE program at least through the end of 2021 and into 2022. The QE will at least partially restrain the natural rise of long-dated government yields that we would traditionally expect during a robust recovery. However, the Fed's long-term policy goal is for higher rates, 2% inflation and it remains willing to let the economy run hot and overshoot over the short term. In Canada, the BoC, at its recent rate meeting, noted that CPI inflation is near the bottom of their 1-3% target band and is likely to move only temporarily to around the top of the band in the next few months. The expected rise in CPI inflation reflects base-year effects from deep price declines in some goods and services at the outset of the crisis a year ago, combined with higher gasoline prices pushed up by the recent run-up in oil prices. CPI inflation is expected to moderate as base-year effects dissipate and excess capacity continues to exert downward pressure. Like the Fed, the BoC notes that despite the stronger near-term outlook, there is still considerable economic slack and a great deal of uncertainty about the evolution of the virus and the path of economic growth. The labour market is a long way from a full recovery, with employment still well below pre-COVID levels. While historically speaking, rising yields and inflation have not been a bad thing for equity and bond markets going back to the 1960s, periods of runaway inflation like in the 1970s were bad for equity markets and long-duration assets. While we do not believe we are heading for a repeat of the 1970s, we are monitoring inflation expectations closely and for any changes in policy stance by the central banks in Canada and the US.

Periods of runaway inflation = a bad sign for equities

Rising Rates Start Date	Rising Rates End Date	Duration (Months)	Change in 10-Year Treasury Yields	S&P 500 Gain/Loss
12/26/1962	8/29/1966	44.1	1.7%	18.3%
3/16/1967	12/29/1969	33.5	3.6%	1.3%
3/23/1971	9/16/1975	53.8	3.2%	-18.1%
12/30/1976	9/30/1981	57.0	9.0%	8.7%
5/4/1983	5/30/1984	12.9	3.9%	-7.9%
8/29/1986	10/16/1987	13.6	3.3%	11.8%
10/15/1993	11/7/1994	12.7	2.9%	-1.4%
1/19/1996	7/8/1996	5.6	1.5%	6.7%
10/5/1998	1/21/2000	15.5	2.6%	45.8%
6/19/2003	6/28/2006	36.3	1.9%	25.3%
12/30/2008	4/5/2010	15.1	1.9%	33.3%
7/24/2012	12/31/2013	17.2	1.6%	38.1%
7/8/2016	10/5/2018	26.9	1.9%	35.5%
3/9/2020	2/25/2021	11.6	1.0%	39.4%
Average		25.4	2.9%	16.9%
Median		16.4	2.3%	15.0%
% positive			**100.0%**	**78.6%**

Source: FactSet, Raymond James Ltd.

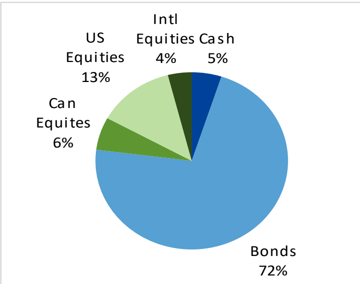
Asset Class	Recommended Allocation --	-	=	+	++	Summary
Equities						**Overweight**
Large Cap						From a long-term view, record monetary/fiscal stimulus and relative equity/bond valuation points to a positive bias towards equities. We believe we're in the early stages of a multi-year recovery and, as such, investors should consider moving further out on the risk scale, looking for opportunities within value and small/mid caps.
Mid Cap						
Small Cap						
Quality						
Growth						
Value						
Defensive						
Cyclical						
Bonds						**Underweight**
Government						We recommend an allocation to corporates over government bonds given higher relative real yields. We would focus on short- to medium-term maturities. Investors concerned about future inflation can consider US TIPs and/or Canadian real return bonds.
Corp						
Duration (short)						
Duration (med)						
Duration (long)						
Alternatives						Alternative investments are unique and an allocation to the segment is highly dependent on a client's investment objectives, time horizon, liquidity needs and risk tolerance. Given the various factors that differentiate Alternatives from traditional investments, we recommend a more holistic approach wherein investors tailor certain funds from our Approved List to meet their needs.
Cash						**Underweight**
Regional Allocation						
Canada						The US fiscal and monetary response provides a significant tailwind for US equities; however, as the recovery takes hold, we believe investors will move further out on the risk scale, increasing exposure to international markets, particularly Japan, the UK, Italy and Mexico. In local terms, we believe the S&P/TSX may marginally outperform the S&P 500 but, on a currency-adjusted basis, we see a similar return profile.
US						
Int'l						

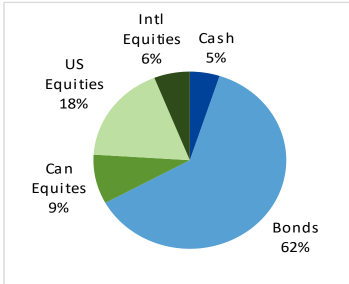
Recommended Asset Allocation Guide:

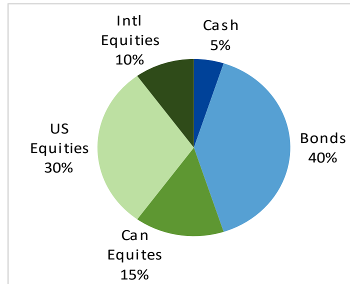
--	-	=	+	++
Underweight	**Modest Underweight**	**Neutral**	**Modest Overweight**	**Overweight**

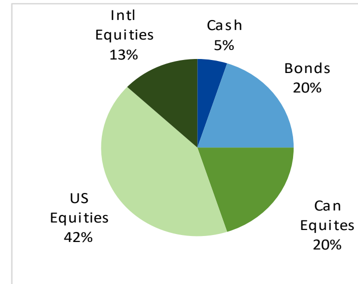
Investor Profiles and Asset Class Weightings

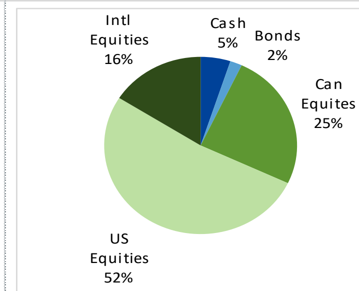
Recommended Asset Allocation











	Capital Preservation	Conservative	Moderate	Growth	Aggressive Growth
Cash	5%	5%	5%	5%	5%
Bonds	72%	62%	40%	20%	2%
Can Equities	6%	9%	15%	20%	25%
US Equities	13%	18%	30%	42%	52%
Intl Equities	4%	6%	10%	13%	16%
	100%	*100%*	*100%*	*100%*	*100%*
Tactical Asset Mix (Bonds include cash)					
Bonds | Equities	77 | 23	67 | 33	45 | 55	25 | 75	7 | 93
Strategic Asset Mix (Bonds include cash)					
Bonds | Equities	80 | 20	70 | 30	50 | 50	30 | 70	10 | 90
Asset Ranges					
Cash	0-20	0-20	0-20	0-20	0-20
Bonds	60-100	50-90	20-70	10-50	0-30
Equities	0-30	10-50	30-75	50-90	70-100

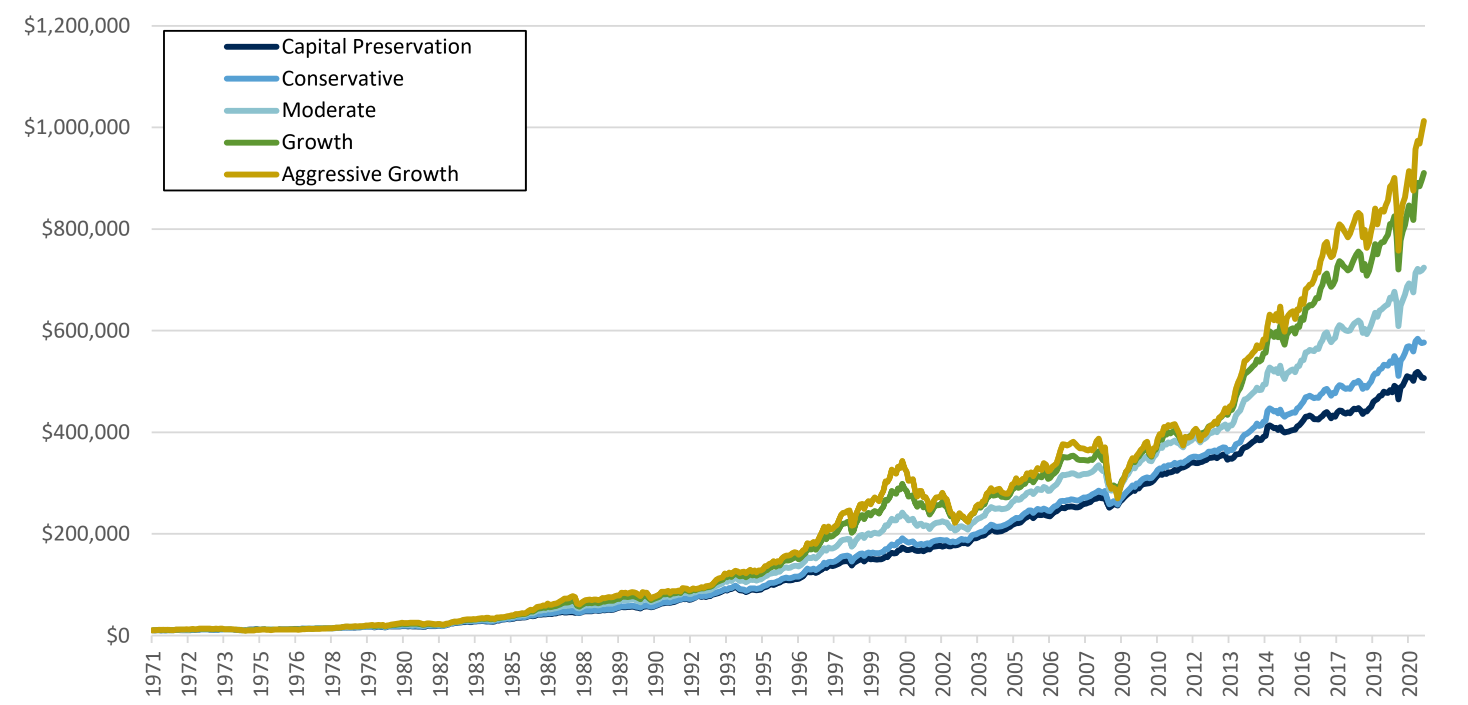
Description

Capital Preservation	Conservative	Moderate	Growth	Aggressive Growth
May be appropriate for investors with long-term income distribution needs who are sensitive to short-term losses. The equity portion of this portfolio generates capital appreciation, which is appropriate for investors who are sensitive to the effects of market fluctuation but need to sustain purchasing power. This portfolio, which invests primarily in fixed-income securities, seeks to keep investors ahead of the effects of inflation with an eye toward maintaining principal stability.	May be appropriate for investors with intermediate-term time horizons who are sensitive to short-term losses yet want to participate in the long-term growth of financial markets. The portfolio, which fixed-income securities tend to make up the largest proportion of holdings, seeks to keep investors well ahead of the effects of inflation with an eye toward maintaining principal stability. The portfolio has characteristics that may deliver returns lower than that of the broader market with lower levels of risk and volatility.	May be appropriate for investors seeking a balance between capital preservation and capital growth. This portfolio, which is a split between fixed-income securities and equities, seeks to keep investors well ahead of the effects of inflation with an eye toward maintaining principal stability. With roughly half of the portfolio invested in a diversified mix of Canadian and international equities, investors should be comfortable with moderate fluctuations in the portfolios.	May be appropriate for investors with long-term time horizons who are not sensitive to short-term losses and want to participate in the long-term growth of the financial markets. This portfolio, which has a higher weighting in equities, seeks to keep investors well ahead of the effects of inflation with principal stability as a secondary consideration.	May be appropriate for investors with long-term time horizons who are not sensitive to short-term losses and want to participate in the long-term growth of the financial markets. This portfolio, which is primarily invested in equities, seeks to keep investors well ahead of the effects of inflation with little regard for maintaining principal stability. The portfolio may deliver returns comparable to those of the broader equity market with similar levels of risk and volatility.

Client Profile Statistics

	Capital Preservation	Conservative	Moderate	Growth	Aggressive Growth
Total Return (annualized)	8.1%	8.4%	8.9%	9.4%	9.6%
Avg Monthly Return	0.67%	0.69%	0.74%	0.79%	0.82%
Avg Rolling 12 Month Return	8.4%	8.7%	9.2%	9.8%	10.2%
Annualized Std Dev (36 months)	5.6%	6.4%	8.0%	10.2%	12.6%
Sharpe Ratio	1.4	1.3	1.1	0.9	0.8
Best 12 month Rolling return	46.5%	48.0%	46.1%	46.3%	47.7%
Worst 12 month Rolling Return	-7.7%	-11.3%	-18.9%	-26.1%	-32.6%

Value of $10,000 Invested



Source: FactSet, Raymond James Ltd. As at March 31, 2021, Inception January 1971.

Performance statistics are calculated using C$ monthly returns that are rebalanced every calendar year using the recommended asset class weightings for each profile (cash weighting has been rolled up into the bond weighting).
Benchmarks: Bonds = FTSE/TMX Canada Universe Bond TR Index; Canadian Equities = S&P/TSX Composite TR Index, US Equities = S&P 500 TR Index; International Equities = MSCI EAFE TR Index.

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