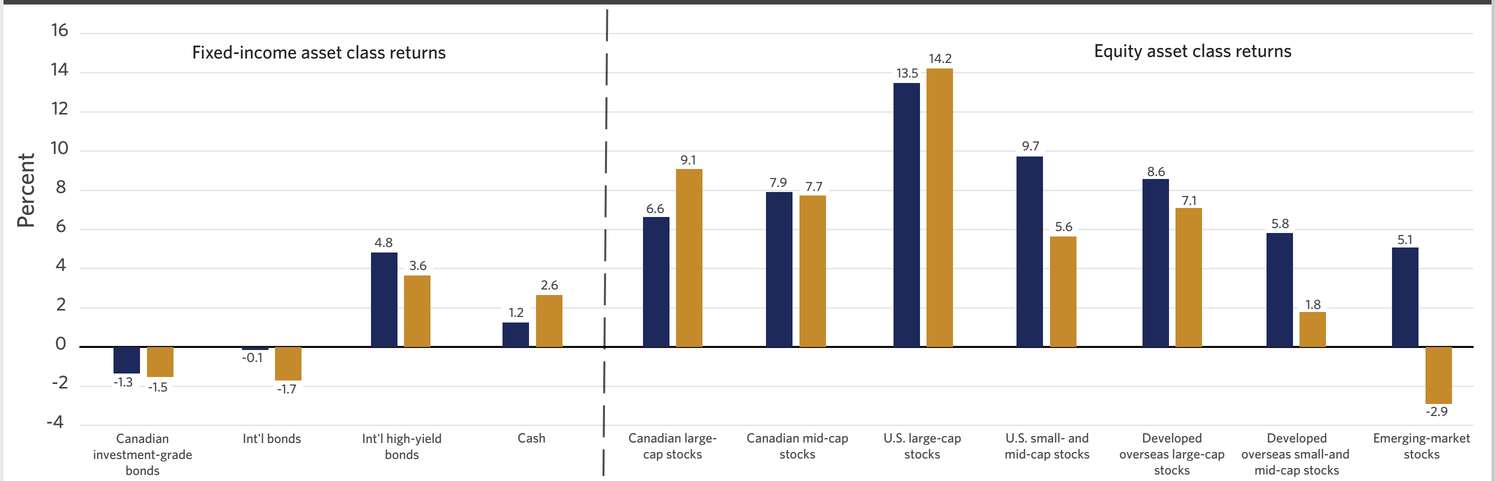
Quarterly market outlook: **Second quarter 2024**

Asset Class Performance: Q1 2024



Source: Morningstar Direct, 3/31/2024. Total returns in CAD. Canada large-cap stocks represented by the S&P/TSX Composite Index. U.S. small- and mid-cap stocks represented by the Russell 2500 Index. International bonds represented by the Bloomberg Global Aggregate Bond CAD Hedged Index. International high-yield represented by the Bloomberg Global High Yield Index. Canadian investment-grade bonds represented by the Bloomberg Canada Aggregate Bond Index. U.S. large-cap stocks represented by the S&P 500 Index. Emerging market stocks represented by the MSCI EM Index. Overseas large-cap stocks represented by the MSCI EAFE Index. Canadian mid-cap stocks represented by the S&P/TSX Completion Index. Overseas small- and mid-cap stocks represented by the MSCI EAFE SMID Index. Cash represented by the FTSE Canada 91 Day Treasury Bill Index. Past performance does not guarantee future results. An index is unmanaged, is not available for direct investment and is not meant to depict the performance of an actual investment. Investing in equities involves risks. the values of your shares will fluctuate and you may lose principal. Mid- and Small-cap stocks tend to be more volatile than large company stocks. . Special risks are inherent to international investing, including those related to currency fluctuations and foreign political and economic events. Before investing in bonds, you should understand the risks involved, including credit risk and market risk. Bond investments are also subject to interest rate risk such that when interest rates rise, the prices of bonds can decrease, and the investor can lose principal value if the investment is sold prior to maturity.

Looking back at the 1st quarter

Equity markets picked up where they left off in 2023, continuing their trend higher while higher bond yields pressured investment-grade bond returns.

Equity markets march higher; bonds pressured by higher yields – Equity markets rallied in the first quarter, with each of our recommended equity asset classes finishing higher led by U.S. large-cap stocks. U.S. large-cap stocks posted a 13.5% gain for the quarter while Canadian large-cap stocks gained 6.6% as both countries' indexes rose to new all-time highs. Government bond yields rose in the first quarter, with the 10-year Government of Canada yield rising nearly 0.4 percentage points to 3.47% pressuring investment-grade bond returns. Unlike bouts of equity-market volatility in 2023 which were accompanied by rising bond yields, resilient economic activity and healthy corporate profit growth, particularly in the U.S., helped stocks continue their trend higher in the first quarter despite rising bond yields.

Broadening participation helped lift equity markets higher – 2023 was a year characterized by narrow leadership, with a handful of U.S. mega-cap technology companies accounting for a large portion of the S&P 500's gains. The technology, communication services and consumer discretionary sectors of the S&P 500 each returned over 40% in 2023, while no other sector returned more than 18%. The first quarter saw continued strength in technology and communication services with each sector higher by over 12%. However, cyclical sectors such as industrials, energy and financials saw strong performance as well, each rising by 11% or better. Similarly, the energy and industrials sectors of the TSX returned over 11% in the first three months of the year. We'd look for broadening leadership to continue in 2024, with some of last years laggards potentially playing catch-up.

Domestic inflation trends lower; U.S. higher-than-expected – Domestic Consumer Price Index (CPI) inflation continued to trend lower in the first quarter, with headline CPI falling from a 3.4% year-over-year rate in December 2023 to 2.9% in March. Core measures of inflation such as CPI Trim and CPI Median, which are closely monitored by the Bank of Canada, declined as well, posting the lowest year-over-year readings since 2021. Despite the trend lower in domestic inflation, U.S. inflation was higher-than-expected over the same time period, leading markets to lower expectations for Federal Reserve rate cuts in 2024 and driving bond yields higher in the U.S. and Canada.

▶ Action for investors

Broadening market leadership highlights the importance of maintaining diversification across multiple regions, styles and sectors. Work with your financial advisor to help ensure your portfolio is appropriately diversified and aligned to your long-term goals.

