



Global Asset Allocation Perspectives & Investment Backdrop

MANAGED ASSET PROGRAMS
Second Quarter 2024 Preview

Market Review

Scotia Global Asset Management, one of Canada's largest asset managers, offers a broad range of investment management solutions to meet the needs of clients in Canada and around the world.



FIXED INCOME

The Canadian bond market concluded the quarter 1.2% lower, as measured by the FTSE Canada Universe Bond Index. Fixed income markets south of the border fell by -0.8%, as measured by the Barclays U.S. Aggregate Index and the Barclays Global Aggregate Index fell more sharply by, -2.1%. These shifts suggest diminishing expectations for a Federal Reserve rate cut earlier in the year, as U.S. inflation remains stickier than expected. In February, Canada's inflation rate eased to 2.8%, supporting the Bank of Canada's shift toward accommodative monetary policy and potential start to the loosening cycle. The Federal Reserve, Bank of England and European Central Bank held rates unchanged in their last meetings. Meanwhile, the Swiss National Bank kicked off the easing cycle among major central banks. During Q1, the Canadian yield curve continued to shift upward and remains inverted. The 2-year, 10-year and 30-year yields rose by 29 bps, 36 bps and 32 bps, respectively. The yield on the Canada 10-year bond climbed to 3.47% at March's close, up from 3.11% in December. Despite the broad-based fixed income indices ending the quarter negative, we saw positive performance in the corporate and high-yield segments as credit spreads narrowed indicating investors are less worried about corporate default.



EQUITY

The first quarter of 2024 ended on a high note across various market sectors, with the S&P/TSX Composite index registering a 6.6% gain. This uptick was propelled by remarkable performances in Health Care, Energy, and Industrials, which saw increases of 17.7%, 11.7%, and 10.8%, respectively. The broad-based rally was further evidenced by 9 out of the 11 sectors posting gains. In the United States, the stock market continued its upward momentum, with the S&P 500 posting a notable gain of 13.5% in Canadian dollar terms. This bullish trend was led by the Telecommunications and Energy sectors, followed closely by the Information Technology and Financials sectors. The positive sentiment was echoed globally, with the MSCI World Index climbing 11.7% (C\$) and the MSCI Emerging Markets Index up by 5.0% (C\$). The MSCI EAFE sustained its upward momentum with an 8.6% increase during the first quarter and a 16.1% rise on an annual basis. Growth stocks outpaced value stocks, indicating that the market is already reflective of interest rate cuts later this year.

To help guide the forward-looking positioning of Scotiabank's managed asset programs, the MultiAsset Management team meets regularly with the Portfolio Managers at 1832 Asset Management L.P. This preview captures the team's current views and portfolio positioning.

Global Themes from the Multi-Asset Management Team



ECONOMIC GROWTH

Growth globally will continue to be challenged in 2024 as the lagged impact of the previous significant monetary policy tightening slows the economy. A technical recession cannot be ruled out, but we currently do not expect it to be a deep or prolonged one if it occurs, as the backdrop for businesses and consumers remains fairly strong.



BUSINESS CYCLE

Global Purchasing Managers' Indices "PMIs" are hovering near contraction with the U.S. being the largest contributor and we expect this trend to continue in 2024. Eurozone PMI is likely bottoming but is expected to stay at a low level. China is likely to disappoint on its reflation goal in 2024 and its role as the engine for the global manufacturing recovery is not likely to be realized. The reverberations from the COVID pandemic will fade further in 2024 and we expect Services PMIs to trend more meaningfully lower globally. Economic leading indicators point to further headwinds in the coming quarters.



MONETARY POLICY

Central banks have started to acknowledge the impact of higher interest rates on economic growth, as well as the progress on inflation from the impact of tight monetary policy. The overall stance has turned dovish, but each country is at a different phase of the policy cycle. In the first half of 2024, the central banks will likely remain cautious and leave the door open for more rate hikes should inflation reaccelerate. In the second half of 2024, the U.S. Federal Reserve, along with most other central banks, are likely to start cutting rates aggressively.



INFLATION

Headline inflation is falling across the global economy as energy, food, and goods prices normalize following previous spikes; however, core inflation has continued to remain stubbornly high due to the resilience of economic growth and imbalances in labor markets. The disinflation trend is likely to continue throughout the remainder of 2024. Economic growth will need to weaken further for inflation to return to more sustainable, lower levels.



RISK

The "higher for longer" regime of rates will continue to create risks in financial markets in 2024 after a prolonged period of ultra-accommodative monetary policy, highlighted by the emergence of a regional bank liquidity crisis in the U.S. Central banks have considerable tools available to them to offset some of these risks as they materialize, but unintended consequences cannot be ruled out. The recent rally in risky assets has created the opportunity to take a more defensive equity position in light of the high uncertainty regarding our outlook.

Regional Backdrop



Fixed Income Environment

The Bank of Canada has held its key interest rates at 5% for the fifth consecutive meeting. The central bank anticipates that the beginning of the loosening cycle will start sometime this year, but rates likely won't be cut at the pace of the rapid increases. The Canadian yield curve remains inverted, with yields moving upward across the curve, accentuating the flattening trend with more pronounced moves upward in the mid/long-end segments. The 2-year, 10-year and 30-year yields rose by 29 bps, 36 bps and 32 bps, respectively. The spread between the 2-year and 10-year government yields narrowed from -78 bps in December to -71 bps by March's end. The yield on the Canada 10-year bond climbed to 3.5% at March's close, up from 3.1% in December. Canadian government bonds saw a 1.2% decline in Q1, as measured by the FTSE Canada Universe, slightly lagging corporates which posted a modest gain of 0.1%. Sector-wise performance was broadly flat, with securitized lending by a 1.1% increase in the quarter.

Equity Fundamentals

The S&P/TSX Composite Index rose by 6.6% in the first quarter, with gains in nine out of its eleven sectors. Healthcare, Energy and Industrials were the top performers by 17.7%, 11.7% and 10.8% respectively. The market sustained the upward momentum from the previous year's end, marking a fifth consecutive month of gains and posting a new all-time high in March. Equity markets seemed to overlook some hawkish comments from the Bank of Canada and appeared to be focusing on the prevailing narrative of slowing inflation, anticipated rate cuts in the latter half of the year, and the likelihood of avoiding a recession. All these key themes have kept an appetite for risk assets. Despite mixed macro news from China and the U.S., it's important to note the rebound in the energy sector, as markets anticipate sustained demand throughout the year and reprice higher growth.



The treasury yield curve flattened in the first quarter of the year, with yields moving higher across the curve, after the latest inflation and personal consumption expenditures data exceeded expectations. Markets have scaled backed expectations and are repricing cuts to later in the year. The Federal Reserve held interest rates steady for the fifth time, yet Chairman Powell is still indicating that three rate cuts can be expected this year. Chairman Powell continues a cautious, data-dependent stance on monetary policy, amid a strong job market and inflation must continue a downward trend and closer to 2%. The yield curve has remained consistently inverted since early July 2022, exceeding the previous record of a 624-day inversion in 1978. Spreads between corporate and government bonds narrowed, with high yield bonds overperforming on a relative basis. Meanwhile, the Barclays U.S. Aggregate Index declined by 0.8% during the first quarter.

The S&P 500 maintained its upward trajectory, rising by 13.3% in CAD terms. The performance was solid across the board, with all eleven sectors finishing the quarter in positive territory, indicating a widespread bullish trend that extended beyond some of the large headline-making technology and semiconductor stocks. Despite the strong quarter, there are growing concerns of a highly concentrated market in the U.S. indices given a handful of stocks that have experienced outsized gains over the past several months. The S&P Manufacturing Purchasing Managers' Index (PMI) made a comeback, climbing from 47.9 at the year's end to 51.9 by the close of the first quarter, demonstrating the manufacturing sector's resilience in a high-yield environment. Meanwhile, the Services PMI concluded the quarter at 51.7, a slight increase from 51.4 the previous year.

Regional Backdrop (cont'd)



INTERNATIONAL

Fixed Income Environment

Global bonds saw a 2.1% decline in Q1 as measured by the Barclays Global Aggregate Index. The Bank of England and the European Central Bank maintained interest rates during their latest meetings but hinted at possible rate cuts later in the year. This is in response to subsiding inflation among both regions. The U.K. 10-year yield went from 3.5% to 3.9% and the German 10-year yield also saw an increase in yields going from 2.0% to 2.3% reflecting the bond markets' adjusted expectations for fewer rate cuts. On the opposite end of the spectrum, the Swiss National Bank unexpectedly kicked off the start of accommodative monetary policy among developed countries with a 25-bps rate cut.

Equity Fundamentals

The MSCI EAFE sustained its upward momentum with an 8.6% increase during the first quarter and a 16.1% rise on an annual basis. The Japanese market dominated the headlines, after hitting a new all-time high in March, surpassing the previous record reached in 1989. This was driven by a weaker Yen and a strong earnings season. European markets also reached new all-time highs during Q1 as momentum continued across equity markets in the Eurozone even in the face of macro data that suggested regional stagnation. Conversely, Hong Kong stocks continued to trade lower, ending the first quarter in negative territory.



EMERGING MARKETS

Emerging market economies are experiencing robust growth due to improved financial conditions, particularly in LATAM, recovery from the energy shock in Central and Eastern Europe, and increased energy production. Given that many emerging economies are export-oriented, this helps support local growth. EM inflation is also decreasing. EM inflation is also decreasing, driven by reduced domestic inflationary pressures. It's also important to consider that the year-over-year number is benefitting from the fact that the baseline numbers from last year were exceptionally high. This suggests a sustained downward trend throughout the year. Central banks in emerging markets have been proactively cutting rates, outpacing their counterparts in developed economies during the tightening season. The Chinese economy is expected to gradually decelerate as the country shifts away from its dependence on the property and related sectors. This strategic adaptation aims to diversify economic drivers and promote sustainable growth. Hard currency (USD) emerging market bonds increased by 2% in Q1 as measured by the JP Morgan EMBI Global Diversified Index.

Despite the robust performance of developed stock markets, the story for Emerging Markets (EM) was distinct: the MSCI EM Index concluded the fourth quarter over 5% higher and approached an 8% increase for the entirety of 2023. Yet, it still has not made up for the bulk of the losses incurred in 2022. The first quarter of 2024 saw the MSCI Emerging Markets Index notched a 5.0% gain. The Hang Seng Index fell by 2.5% (HKD), and Chinese stocks, which represent 25% of the index, posted modest gains. However, these setbacks were compensated by strong quarters from India and South Korea. While EM Asia and EM EMEA were restrained, Latin America outperformed. Within the EM, a few central banks commenced their easing cycles in 2023, notably Hungary in May and Brazil in August.

Asset Allocation Positioning

	Outlook	Comments
FIXED INCOME		
Overall Fixed Income	0	Bond yields rose over the first quarter as investors removed expectations for significant easing by Central Banks globally. Currently yields offer attractive income levels over the longer term, however, a neutral position remains on a tactical basis given the risk of capital losses from yields moving higher over the coming quarter. There is a neutral view favoured relative to equities as risks are balanced on both sides.
Rates		
Canada and U.S.	—	The market has priced out multiple cuts in the U.S. with strong labour market data and inflation coming in firmer than expectations, portfolios are positioned short duration as the market has scope to further price out cuts in the interim. Higher conviction on steeper trades in both Canada and U.S. with the expectation that the historical spread between front end and long end rates will narrow and could benefit in either a cutting cycle or higher for longer rate scenario.
Global	+	We see value in bonds outside of North America, with inflation moderating quickly and growth remaining sluggish. This dynamic will likely cause the ECB and BoE to diverge from U.S. policy and start cutting rates over the quarter. The Bank of Japan finally ended years of negative rate policy but struck a dovish tone in delivering the message making it difficult to enter a position.
Credit		
Investment Grade	+	Investment Grade corporate spreads have narrowed significantly relative to government bonds, however the higher credit quality of IG borrowers justifies the valuations. The extra pickup in yield offers a buffer and should continue to benefit absent a growth shock.
High-Yield	—	Remain underweight High Yield issuers, given that HY borrowers have delayed refinancing at higher rates over the last few years. As a result, upcoming maturities are at historically high levels and the increased supply to hit the market may exert upward pressure on spreads. Defaults could pick up as companies grapple with higher financing costs.
EQUITIES		
Overall Equities	0	There is a neutral view on equities relative to fixed income given an abundance of conflicting economic indicators. The continued acceleration of economic activity in the short-term is countering expectations for a more meaningful slowdown in the global economy due to the lagged impact of tighter monetary policy. U.S. fiscal policy continues to be a key counter trend as government transfers to consumers during the pandemic have now shifted to technology businesses and in support of reshoring. Inflation remains sticky and concentrated markets remain the key risk to monitor. We are keeping an open mind and will take advantage of opportunities as they emerge to change our view.
Region		
Canada	+	There is a neutral-overweight view on Canadian Equities. The increase in Canadian interest rates has had a more meaningful impact on the Canadian economy than rate hikes have had in the U.S. Given this backdrop, the likelihood that the Bank of Canada cuts before the U.S. Fed is high and may create a more positive sentiment for the Canadian stock market in the near-term. From a valuation perspective, Canadian equities are also priced significantly below their U.S. counterparts while longer-term secular tailwinds appear favourable for the country.
U.S.	+	Although inflation remains stubbornly high, the U.S. market continues to see positive momentum as the U.S. economy has remained surprisingly resilient. Despite stretched valuations, from a structural perspective, the U.S. equity market appears poised to continue to benefit from several growth themes, most notably within artificial intelligence advances, continued reshoring of manufacturing, and renewed investments in infrastructure.
International	—	We have a neutral-underweight view on International Equities, driven by the bearish view on Eurozone. Although there are improving economic growth expectations, their manufacturing PMI continues to show weakness and lag the rest of the world. Structural headwinds in global competitiveness, coupled with uncertainties regarding the sustainability of exports to China, contribute to our negative outlook on the Eurozone, particularly Germany and France. With the weak JPY and the continued trend of increasing net purchases of Japanese stocks from both non-resident investors and domestic investors, Japanese equities are likely to outperform in the medium term, but this is not enough to offset the bearishness in Eurozone.
Emerging Markets	0	We have a neutral view on emerging market equities. China has shown several signals of further policy easing and more stimulus to support the economy. Property sector headwinds still exist with no signs of resolving any time soon. EM index has been underperforming YTD and is relatively inexpensive due to very cheap Chinese stocks and an even cheaper tech sector versus the U.S. tech sector. EM excluding China showed signals of robust growth and positive earnings. EM equities have limited downside opportunity now and the risk is biased towards the upside but given the heightened geopolitical risk and uncertainty of Chinese growth, we maintain a neutral view.

Legend: ++ Very positive + Somewhat positive 0 Neutral — Somewhat negative — Very negative

Performance – As at March 31, 2024

FIXED INCOME						
Bonds	3-Mth	6-Mth	YTD	1-Yr	3-Yr CAGR	5-Yr CAGR
FTSE Canada Universe Bond C\$	-1.22%	6.94%	-1.22%	2.10%	-1.52%	0.28%
Universe Canada All Corporate C\$	0.07%	7.70%	0.07%	5.50%	-0.03%	1.72%
Morningstar CAN High-Yield Fixed Inc	2.01%	7.70%	2.01%	9.22%	1.64%	3.10%
BAML U.S. Corporate C\$	2.55%	7.93%	2.55%	4.69%	0.75%	1.88%
BAML U.S. High-Yield Master II C\$	4.18%	8.78%	4.18%	11.03%	4.75%	4.29%
Barclays U.S. Agg Bond U\$	-0.77%	5.99%	-0.77%	1.70%	-2.46%	0.36%
Barclays Global Agg U\$	-2.08%	5.85%	-2.08%	0.49%	-4.73%	-1.17%
EQUITIES						
Canadian Equities	3-Mth	6-Mth	YTD	1-Yr	3-Yr CAGR	5-Yr CAGR
S&P/TSX Composite C\$	6.62%	15.25%	6.62%	13.94%	9.10%	9.95%
U.S. Equities						
S&P 500 C\$	13.46%	23.60%	13.46%	29.87%	14.27%	15.35%
Dow Jones Industrial Avg C\$	8.65%	19.92%	8.79%	24.87%	11.18%	11.67%
NASDAQ C\$	11.44%	24.52%	11.44%	39.79%	15.44%	21.20%
Global Equities						
MSCI World C\$	11.74%	21.42%	11.74%	25.10%	11.31%	12.36%
MSCI Asia Pacific ex-Japan C\$	4.73%	10.18%	4.73%	5.76%	-2.41%	3.40%
MSCI Japan C\$	13.98%	20.27%	13.98%	26.38%	6.68%	8.45%
MSCI Europe C€	8.06%	17.06%	8.06%	14.99%	9.53%	8.90%
MSCI Emerging Markets C\$	5.04%	10.54%	5.04%	8.74%	-2.29%	2.88%

Source: Bloomberg, Morningstar

MULTI-ASSET MANAGEMENT TEAM

Craig Maddock, CFA
Head, Multi-Asset Management Team and Sr. Portfolio Manager

Wesley Blight, CFA
Vice President & Portfolio Manager

Ian Taylor, CFA
Vice President & Portfolio Manager

Yuko Girard, CFA
Portfolio Manager

Mark Fairbairn, CFA
Portfolio Manager

Jenny Wang, CFA, MA
Portfolio Manager

Team supported by:
2 Associate Portfolio Managers | 9 Analysts | 1 Trader

*As at December 31, 2023

As Portfolio Managers for ScotiaFunds and Dynamic Funds managed-asset programs, the Multi-Asset Management Team oversees approximately \$121 billion* in multi-asset solutions and strategies. The Team is responsible for portfolio construction, asset allocation policy, and investment strategy research and selection. The Team is also involved in the due diligence and day-to-day management of all portfolio solutions.

Commissions, trailing commissions, management fees and expenses may be associated with mutual fund investments. Please read the prospectus before investing. Mutual funds are not guaranteed or insured by the Canada Deposit Insurance Corporation or any other government deposit insurer, their values change frequently and past performance may not be repeated. The information provided in this document is not intended to be investment advice. Investors should consult their own professional advisor for specific investment and/or tax advice tailored to their needs when planning to implement an investment strategy to ensure that individual circumstances are considered properly and action is taken based on the latest available information. Information contained in this document, including information relating to interest rates, market conditions, portfolio positioning and other factors are subject to change without notice. Scotia Global Asset Management is not responsible for updating the information and views expressed. To the extent this document contains information or data obtained from third party sources, it is believed to be accurate and reliable as of the date of publication, but Scotia Global Asset Management does not guarantee its accuracy or reliability. The information provided is not intended to be investment advice.

ScotiaFunds® and Dynamic Funds® are managed by Scotia Global Asset Management., a limited partnership the general partner of which is wholly owned by The Bank of Nova Scotia. ScotiaFunds and Dynamic Funds are available through Scotia Securities Inc. and from other dealers and advisors. Scotia Securities Inc. is wholly owned by The Bank of Nova Scotia and is a member of the Canadian Investment Regulatory Organization. Scotiabank® includes The Bank of Nova Scotia and its subsidiaries and affiliates, including 1832 Asset Management L.P. and Scotia Securities Inc. Scotia Global Asset Management® is a business name used by 1832 Asset Management L.P., a limited partnership, the general partner of which is wholly owned by Scotiabank. ®Registered trademarks of The Bank of Nova Scotia, used under licence. © Copyright 2024 The Bank of Nova Scotia. All rights reserved.

Scotia Global Asset Management.