iA Global Asset Management

Monthly Macro & Strategy

May 2023

Sébastien Mc Mahon, MA, PRM, CFA
Chief Strategist, Senior Economist and Vice-President,
Asset Allocation & Portfolio Manager

Adil Mahroug, M.Sc.
Senior Strategist and Director, Asset Allocation

Tuyen Tran, M.Sc., CFA
Senior Analyst, Asset Allocation

Highlights

- The business cycle is composed of several sub-cycles and the credit cycle is the most important
- The primary consequence of the US banking turmoil could be an abrupt end to the credit cycle
- We remain underweight U.S. equities and high yield bonds

It's all about the credit cycle

Macro investing essentially involves analysis of the various parts of the economic cycle.

We typically think of the economy as a lengthy repetition of expansion, peak, recession, bottom and recovery; but, in fact, multiple, shorter subcycles cause ups and downs in the various economic sectors and together give rise to what we call the economic cycle. To name a few, there are shorter cycles in business profits, inventory demand, risk appetite and, need we say, the markets themselves.

In this month's edition, we focus on what is probably the most important subcycle, namely the credit cycle. In the wake of the banking turmoil that hit some U.S. and European banks in March of this year, we think a thorough understanding of credit cycle dynamics will enable us to form expectations of what lies ahead and, most important, to make informed investment decisions.

A broad definition of the credit cycle

What is meant by the credit cycle, and why is it all-important?

Put simply, the credit cycle is a recurring pattern of expansion and contraction in credit availability and borrowing. During the expansion phase, credit is widely available from banks that are willing and able to lend, interest rates are low and borrowers take on debt to invest in and expand their businesses, which boosts economic activity and growth.

In a typical contraction phase, debt levels rise, lenders become more cautious and defaults increase, leading to a contraction phase when credit becomes less available, interest rates rise and borrowers struggle to pay their debts. The outcome is usually a downturn in economic activity and possibly even a recession.

Global Asset Allocation Views (May 2023)

	--	-	N	+	++	Δ
Asset Classes						
Money Market				X		
Fixed Income				X		
Equities		X				
Alternatives			X			
Relative Equity						
Canadian Equities			X			
U.S. Equities	X					
International Equities			X			
EM Equities			X			
Relative Fixed Income						
Government Bonds					X	
IG Corporate Bonds				X		
HY Bonds	X					
Other						
Oil				X		
Gold			X			
USD (trade weighted)				X		
CAD/USD			X			

Last month's edition of the iAGAM Monthly Macro & Strategy took a deep dive into the dynamic of ongoing shrinkage of central bank balance sheets and pressure on bank deposits. In the wake of the recent banking turmoil and the fall of Silicon Valley Bank, among others, the narrative quickly shifted to the most likely aftereffect of the contained crisis: tighter bank lending standards. This development may expedite the end of the current credit cycle and is worthy of exploration.

In general, economists tend to build a credit index based on several variables. One of the most important is credit growth, or the rate at which loans and credit are growing in the

economy. High levels of credit growth can be a sign of an expansion phase, whereas low levels can be a sign of a contraction phase.

Another key variable is the level of debt in the economy. High debt levels can increase the risk of defaults and lead to a contraction phase. Credit quality, such as the rate of non-performing loans, is also an essential variable; it can indicate the health of the banking sector and borrowers' ability to make their debt payments.

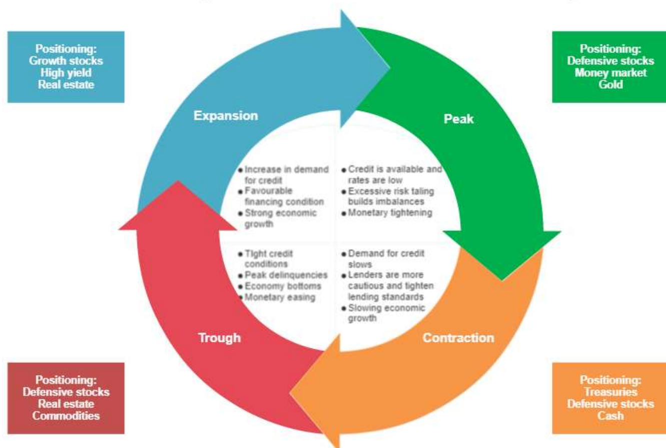
Interest rates also play a crucial role: low interest rates can stimulate borrowing and fuel an expansion phase, whereas high interest rates have a damper effect and can push the cycle into the contraction phase.

Finally, general business-cycle metrics are also considered, such as GDP growth, inflation and unemployment, because a strong economy can support higher levels of credit growth, whereas a weak economy can limit credit supply and demand.

Going deeper: stylized facts on the credit cycle and where we stand

Credit cycles are complex processes. Before delving into where we stand and the implications for portfolio positioning, we think it's crucial to explain the inner workings of credit cycles. Below is a bird's-eye view of the dynamics of the credit cycle, which moves from expansion to peak, to contraction and then to trough.

The four phases of the credit cycle



During the *expansion phase*, demand for credit increases as businesses and consumers seek to expand their operations or to increase their spending by taking advantage of favourable financing conditions. The increase in lending in turn stimulates economic growth. The seeds of a future contraction are sometimes planted during this initial phase; some expansion phases are characterized by aggressive and excessive borrowing and risk taking. The role of financial institutions and policymakers is crucial in the expansion phase because a buildup of excess debt and, potentially, overleveraging can create systemic risks that fragilize the financial system and the economy.

During the *peak phase* of the credit cycle, we usually see the strongest economic growth and optimism, as the system is flush with credit and interest rates are manageably low. During this phase, businesses and consumers are more likely to take on debt, and lenders are more willing to extend credit. This period is also characterized by excessive risk taking, speculation and overconfidence. As the economic cycle peaks, inflationary pressures typically start to build, leading to rising interest rates and tighter credit conditions. The credit cycle peak then naturally begins to reverse itself, and we move on to the contraction phase. Financial institutions and policymakers, recognizing that the credit cycle has peaked, tend to take actions that accelerate the reversal toward the contraction phase. Banks may tighten their credit conditions, and regulators may increase reserve requirements for banks or impose other macroprudential measures to reduce the risks of excessive borrowing and speculation.

In the *contraction phase* of the credit cycle, we see the economy stall and financial conditions tighten. Businesses and consumers become less willing or able to take on debt, causing a decline in demand for credit. Lenders become more cautious and tighten their lending standards, causing a further reduction in credit availability. The typical outcome is an economic slowdown, rising unemployment and increased financial stress for borrowers. Policymakers may take action to mitigate the effects of the contraction phase, such as by implementing monetary or fiscal stimulus measures, while also being careful to avoid creating new imbalances.

In the *trough phase* of the credit cycle, the economy bottoms, with a mix of recession (or even depression), high unemployment and tight credit conditions. Businesses and consumers have a difficult time accessing credit as lenders tighten the purse strings, leading to bankruptcies. The trough phase can also be a time of opportunity for businesses and investors who have cash on hand and the ability to identify undervalued assets with growth potential. As the economy begins to recover, credit conditions eventually loosen, and a new credit cycle is born.

Where are we now?

In recent years, we've seen a compressed version of the standard credit cycle. The sudden economic stop created by the pandemic tightened credit conditions almost overnight as the economy ground to a halt. The credit cycle was thrown into the trough phase overnight, pushing central banks and fiscal authorities to implement aggressive support measures to foster economic growth.

U.S.: Senior Loan Officer Opinion Survey on Bank Lending Practices

Federal Reserve, as of 3/31/2023

The Federal Reserve Board's Senior Loan Officer Opinion Survey on Bank Lending Practices shows this rapid tightening, followed by a rapid loosening of lending standards. Credit became scarce across the board, whether we look at commercial and industrial loans or consumer loans. As the global economy regained its footing, the credit cycle quickly moved into the expansion phase. Banks were flush with fresh deposits and interest rates were at all-time lows; thus, lending standards and demand for credit rapidly rose, the housing market became buoyant and economic growth strengthened.

The expansion phase raged on in the second half of 2020, before slowly moving into the peak phase in late 2021, when asset valuations were generally at all-time highs. As inflation took hold and the global economy showed signs of overheating, central banks around the world embarked on one of the most aggressive tightening cycles in history. Risk appetite deflated, pushing down stock market valuations and housing prices. The contraction phase most likely began late in 2022 and was confirmed in March 2023, when some U.S and European banks ran into problems with deposit outflows, which limited their ability and willingness to extend credit.

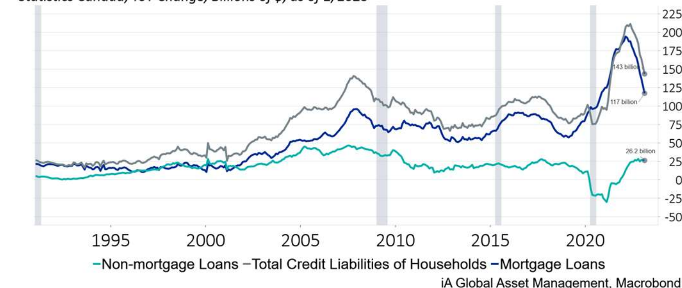
Availability of Loans for small business

National Federation of Independent Business, as of 3/31/2023

The National Federation of Independent Business (NFIB) survey of U.S. small businesses seems to confirm that the availability of loans has dropped since the banking turmoil episode, moving closer to levels usually seen in recessions. In Canada, we're starting to see a similar trend, although it is slightly less pronounced. The Bank of Canada's Business Outlook Survey (BOS) and its Senior Loan Officer Survey (SLOS) both show an ongoing tightening of credit conditions. The number of BOS respondents reporting that credit conditions have tightened is up from 12% at the beginning of 2022 to 26% currently. One of the possible reasons why Canada isn't seeing a tightening of credit conditions comparable to that of the United States is that we did not have an episode of banking turmoil in 2023. In fact, we posited in last month's edition that Canadian banks are, overall, in a more solid position than their U.S. counterparts – hence the smoother credit cycle north of the border.

Canada: Consumer Credit & Mortgage Loans

Statistics Canada, YoY Change, Billions of $, as of 2/2023

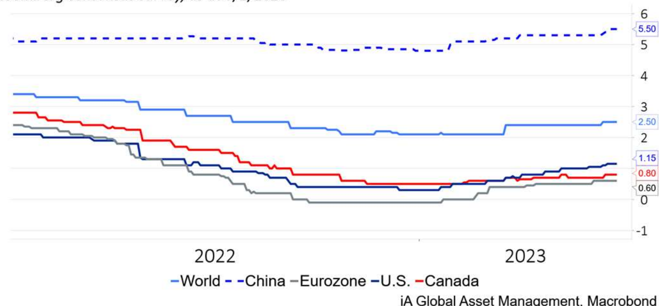


The combination of slowing economic growth, falling credit demand, rising interest rates and tighter lending standards puts us firmly in the contraction quadrant of the credit-cycle diagram. The question is: How fast will things move from here? Previous credit cycles have dragged on for years, with some phases lasting months or even years, depending on the economic environment. The current setup is atypical; massive liquidity injections were used to kick-start the credit cycle in 2020 and 2021, after which the central banks slammed on the brakes in 2022 and 2023. The first phases were fast-paced, so it's only natural to expect that we will move promptly through the contraction and trough phases and complete the cycle. The hints we look for to infer that we're moving toward the trough phase are a bottoming of economic growth, further tightening of financial conditions and a rise in delinquencies and bankruptcies.

Looking at recent Bloomberg data on consensus growth forecasts, we see a clear pattern of falling growth expectations. GDP growth in 2023 and 2024 is expected to be about 0% in Canada, the United States and the euro zone. The world growth forecasts are also nearing the generally recognized global recession threshold of 2.5%. It seems that a bottoming of economic activity is not widely expected yet. Monetary policy continues to be restrictive; both BoC Governor Tiff Macklem and Federal Reserve Chair Jerome Powell continue to maintain that no pivot will happen until inflation is brought under control. The current rates of inflation are not yet in line with their 2% inflation target; therefore, financial conditions should remain tight for the foreseeable future.

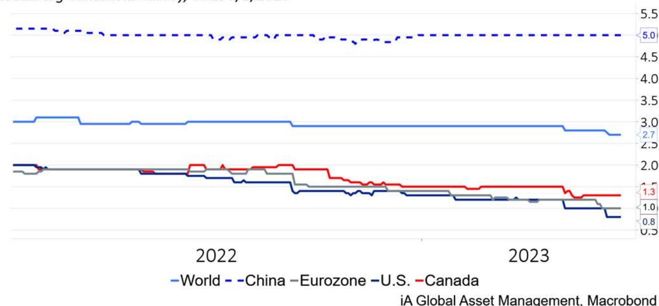
GDP Growth Forecasts for 2023

Bloomberg consensus survey, as at 5/1/2023



GDP Growth Forecasts for 2024

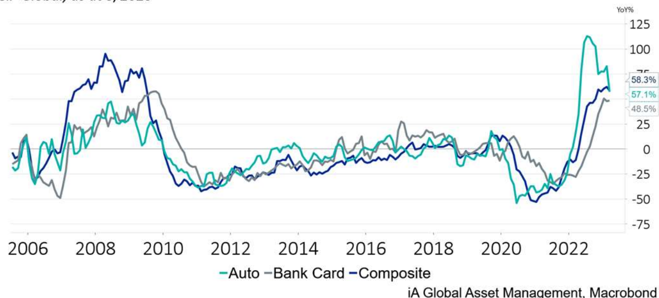
Bloomberg Consensus Survey, as at 5/1/2023



Finally, let's turn to delinquencies and bankruptcies. As can be seen below, delinquencies on U.S. credit cards and car loans have started rising.

United States: Consumer Credit Defaults, % YoY

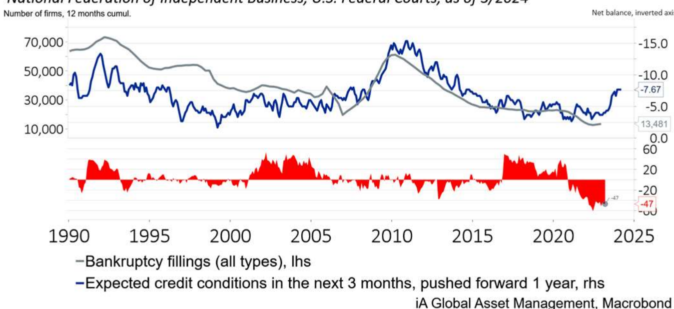
S&P Global, as at 3/2023



When it comes to businesses, U.S. bankruptcy filings are still historically low. Even so, the leading indicator of NFIB expected credit conditions (which has historically led bankruptcies by 9 to 12 months) is pointing to upside risks.

U.S.: Small business credit perceptions and bankruptcies

National Federation of Independent Business, U.S. Federal Courts, as of 3/2024



In conclusion, we seem to be firmly in the credit cycle's contraction phase, which most likely started late in 2022. This phase could last for most of 2023, depending on the lagged effects of the massive monetary policy tightening of the past 13 months. When the global economy moves closer to or into recession territory, the trough phase will begin. Our guess is that this could happen later this year or in 2024.

As always, the key to navigating the credit cycle is to be vigilant and flexible, with an eye on the data and the broader economic environment. The current context features tightening financial conditions, slowing economic growth and rising risks of delinquencies and bankruptcies. It's a time to be cautious with a close watch on credit cycle dynamics.

Credit cycle contraction or credit crunch?

The above section covered most of what we need to know about the credit cycle, but the lingering question is: Are we looking at a potentially steep contraction in credit? Should we talk about a credit crunch?

A credit crunch is a specific case of credit-cycle contraction whereby the economy undergoes a sudden, severe shortage of credit. This phenomenon goes beyond a simple reluctance to lend on the part of banks amid deteriorating economic prospects; generally, it is caused by regulatory pressures, deteriorating bank asset values and/or a hit to profitability.

Even though it's too early to call for this market dynamic to emerge from the global banking system, the pressure on bank assets from the large and rapid rise in interest rates over the past 14 months is surely enough to at least put non-trivial odds on such a scenario in the coming quarters.

The worst-case scenario is that lenders become more cautious and reluctant to lend money, leading to a sharp increase in the cost of borrowing through widening spreads. Borrowers, especially businesses, could lose some access to credit, resulting in a slowdown in economic activity and a rise in unemployment. The impact of a credit crunch on markets is generally severe, affecting stocks, real estate and commodities.

Credit crunches can also be caused by other factors, such as a sudden change in market conditions, a housing market crash or a sharp stock market selloff. For example, during the 2008 global financial crisis, the credit crunch was due mainly to subprime mortgage defaults in the United States, which caused the housing market to collapse and set off a chain reaction: financial institutions that had invested heavily in mortgage-backed securities incurred massive losses and became reluctant to lend money to other banks, causing a liquidity crisis.

Policymakers vividly recall the 2008 saga, and the recent bias toward interventionism pushed the Fed, the Treasury and the Swiss government into action in March.

The typical cure for a credit crunch is for governments and central banks to provide liquidity by injecting money into the financial system, offering emergency loans, lowering interest rates or buying assets from banks to increase their cash reserves. Given the ongoing fight with inflation, the options were rather limited for the March 2023 interventions. Even so, the creation of lending facilities to alleviate the mark-to-market impact of higher rates on sovereign bond holdings, albeit a limited measure so far, seems to have done the job.

Bottom Line

Equities

We haven't changed our overall positioning since last month; we continue to favour fixed income and money market securities over equities.

As in recent months, the valuation gap between the U.S. indexes and the rest of the world remains sizable; given our prudent view on equities, we have underweighted the U.S. stock market exclusively.

Looking at current short-term interest rates, we ask ourselves what an investor would need to expect in terms of returns in the coming 12 months to consider holding an overweight position on the S&P/500? This is a crucial question. With the federal funds rate sitting at 5.0%, and about to rise to 5.25% in May, we assume that one would expect a return of at least 10% on Wall Street to take on equity risk when money markets offer 5%+ returns with absolutely no risk.

Looking at current valuations, we see that the S&P 500 is trading at 18.3 times expected earnings, which corresponds to about an 80th-percentile reading on a historical basis. In other words, Wall Street is trading at more expensive multiples than 80% of historical observations. With this situation happening at the end of one of the most massive tightening cycles in history, there's room for skepticism.

Turning to expected earnings growth, we note that the consensus forecast for 2023 is for earnings per share (EPS) of $217 on the S&P 500, right in line with the 2022 EPS, meaning 0% growth. Consensus EPS expectations for 2024 are $243, meaning 12% growth over the calendar year.

Index	As of April 28, 2023		Available history
	Current NTM Fwd P/E	Current historical percentile	
NASDAQ	25.3	80	2001-
Russell 2000	21.4	61	1995-
S&P 500	18.4	80	1990-
Nikkei 225	16.1	44	2005-
MSCI ACWI	15.7	69	2001-
S&P/TSX	13.5	22	2001-
S&P/TSX Small Cap	13.3	8	2002-
MSCI EAFE	13.0	39	2005-
MSCI Europe	12.9	50	2005-
MSCI ACWI Ex-U.S.	12.7	44	2005-
MSCI EM Ex-China	12.6	61	2020-
MSCI EM	12.4	43	2005-
MSCI China	10.4	36	2005-

Our leading indicators paint a much dimmer picture, with the ISM pointing to a 5-to-10% contraction of EPS growth on a year-over-year basis in the coming 6 months, suggesting downside risk to the consensus forecasts.

So back to our question: How do we build a scenario of 10% upside on the S&P 500 over the coming 12 months? We would need to see a combination of no downside on earnings growth in 2023, despite the warning signal sent by our historical models, followed by an above-average year in 2024 and a valuation that becomes even more expensive (20 times and above the forward price-earnings ratio) in a context of slowing economic growth and elevated interest rates.

As the above explanation illustrates, an abundance of optimism is needed to build the case for U.S. equities in the months ahead, and an underweight stance is the most appealing proposition for now.

Fixed income

We maintained an overweight in sovereign, long-duration bonds during the month along with an underweight in high-yield corporate credit.

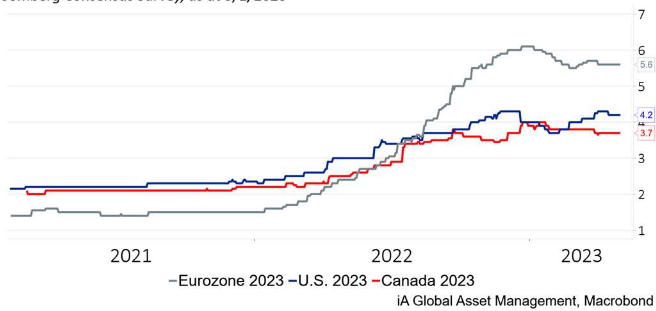
With 10-year sovereign interest rates sitting at their highest levels in more than 10 years, bonds are again a viable alternative to equities. Even though the "there is no alternative" (TINA) concept was omnipresent in the past decade, it now makes ample sense to hold a more balanced portfolio, with the fixed-income portion offering attractive returns, instead of mostly diversification benefits.

Interest rates are obviously a reflection of a few factors: expectations of GDP growth, inflation and the behaviour of central banks. Looking at market expectations for these three components, we can make a case for bonds, specifically long-duration sovereign bonds.

In the previous section, we showed that historically weak GDP growth is expected for 2023 and 2024, and that recession risks are elevated. As sovereign bonds tend to act as safe havens in periods of economic weakness, the current macro environment lends itself to an overweight position.

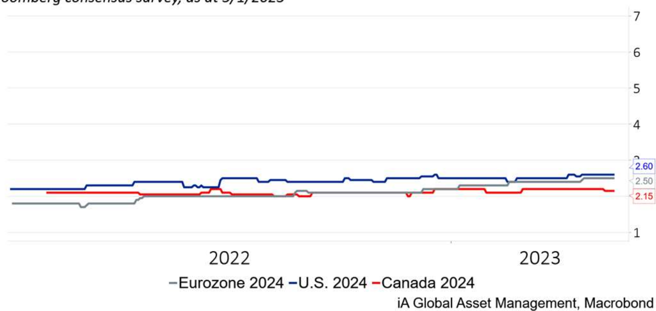
Inflation Forecasts for 2023

Bloomberg Consensus Survey, as at 5/1/2023



Inflation Forecasts for 2024

Bloomberg consensus survey, as at 5/1/2023



Turning to inflation expectations, even though the fight is far from over, we still see risks that price pressures will continue into 2024. Even so, the consensus forecast is pointing to lower inflation, which could lead to a central bank pivot at some point in 2024 and, thus, to lower rates along the front end of the yield curve (leading to capital gains).

Finally, speculative positions on 10-year Treasuries currently stand at one of the shortest levels in history, leading to a potential short squeeze, should negative macro news suddenly push investors toward safety.

Speculative Positions on 10-Year Treasuries

CFTC, Bloomberg, as at 4/28/2023

Commodities and FX

The U.S. dollar is facing conflicting forces that could keep it stable through the second quarter of 2023. That being said, the Federal Reserve is expected to lower interest rates more than other central banks in the long term, which could lead to a significant decline in the dollar from the second half of 2023 to 2024. Meanwhile, emerging market currencies, particularly the high-yielding currencies of Latin America and emerging Europe, are poised for continued strength. But we don't think the era of dollar dominance is over. We tend to agree with former Treasury Secretary Larry Summers, who says the yuan is not a threat to the greenback, largely because China is not a predictable, reliable market. Summers doubts that anyone looking for political stability or an objective system for adjudicating their claims would hold large quantities of assets in yuan. He did note, however, that there were still threats to the dollar's value, given the current debt-ceiling crisis in the United States.

U.S. Dollar: DXY index

Intercontinental Exchange (ICE), as of 4/28/2023

Copper prices have remained stable, with investors monitoring the market for any signs of a breakout. The global economic outlook has weighed on prices, but low inventories and the transition toward renewables are creating a bullish narrative. Chile saw a 3.4% drop in production, but Peru's copper mines resumed production, and 39 new mining projects will become operational in 2023. Even though investors have steered away from bullish bets on copper, tight supplies will limit any downturn.

Copper Price

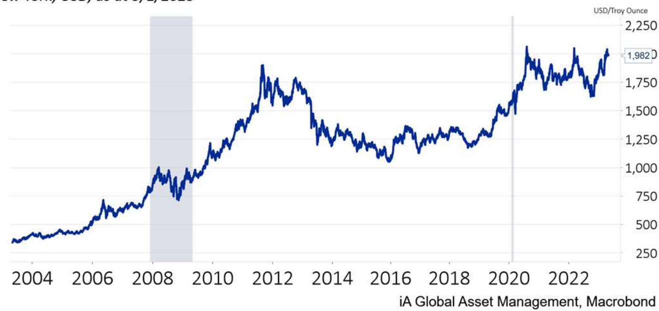
London Metal Exchange (LME), USD, as at 4/28/2023

iA Global Asset Management

As for gold, which continues to hover near all-time highs, we continue to hold our breath.

Gold Price

New York, USD, as at 5/1/2023



The yellow metal plays an important role in a diversified portfolio. First, gold has long been considered a reliable store of value, making it a popular choice for investors looking to diversify their portfolios and reduce overall risk. Gold often moves in the opposite direction of other asset classes, such as stocks and bonds, making it an effective hedge against market volatility. In times of economic uncertainty or market turmoil, gold tends to hold its value or even increase in price, providing a source of stability and protection for investors.

One of the reasons why we're still gun-shy is that the U.S. dollar has pulled back relatively quickly in recent months and may be due for a technical bounce. We also think market volatility could make a comeback in the next few months, which typically leads to U.S. dollar strength and, incidentally, headwinds for gold.

Market Performance

(Total return, in local currency)

As of April 30, 2023	MTD%	QTD%	YTD%	Δ1Y%
Equity				
S&P 500	3.7%	7.5%	7.5%	-7.7%
S&P/TSX	-0.2%	4.6%	4.6%	-5.2%
NASDAQ	9.5%	20.5%	20.5%	-11.2%
MSCI World	2.5%	7.4%	7.4%	-5.5%
MSCI EAFE	0.5%	7.5%	7.5%	3.8%
MSCI EM	2.2%	3.8%	3.8%	-6.2%
Commodities				
Gold	7.8%	8.0%	8.0%	1.6%
CRB	0.4%	-0.7%	-0.7%	-13.2%
WTI	-1.8%	-5.7%	-5.7%	-24.5%
Fixed Income				
FTSE Canada Universe Bond	2.2%	3.2%	3.2%	-2.0%
FTSE Canada Long Term Bor	2.6%	4.7%	4.7%	-7.2%
FTSE Canada Corporate Bon	1.3%	2.8%	2.8%	-1.0%
Currency				
DXY	-2.3%	-1.0%	-1.0%	4.3%
USDCAD	-1.0%	-0.3%	-0.3%	8.1%
USDEUR	-2.4%	-1.2%	-1.2%	2.1%
USDJPY	-2.4%	1.3%	1.3%	9.2%
USDGBP	-2.5%	-2.1%	-2.1%	6.5%

As of April 30, 2023	MTD%	QTD%	YTD%	Δ1Y%
S&P/TSX Sectors				
Financials	-5.9%	1.7%	1.7%	-9.8%
Energy	-2.2%	-2.3%	-2.3%	-1.2%
Industrials	2.0%	6.5%	6.5%	4.0%
Materials	6.9%	8.1%	8.1%	-8.4%
Information Technology	11.1%	26.5%	26.5%	-5.9%
Utilities	5.4%	6.7%	6.7%	-9.0%
Communication Services	0.7%	3.2%	3.2%	-7.6%
Consumer Staples	4.3%	7.9%	7.9%	12.7%
Consumer Discretionary	0.4%	4.6%	4.6%	6.5%
Real Estate	-4.7%	5.8%	5.8%	-12.9%
Health Care	-11.3%	0.9%	0.9%	-57.7%
S&P 500 Sectors				
Information Technology	10.9%	21.5%	21.5%	-5.6%
Health Care	2.1%	-4.7%	-4.7%	-5.3%
Consumer Discretionary	3.0%	15.8%	15.8%	-20.4%
Financials	-9.7%	-6.0%	-6.0%	-16.0%
Communication Services	10.4%	20.2%	20.2%	-18.5%
Industrials	0.6%	3.0%	3.0%	-1.6%
Consumer Staples	3.8%	0.2%	0.2%	-1.4%
Energy	-0.5%	-5.6%	-5.6%	9.1%
Utilities	4.6%	-4.0%	-4.0%	-9.0%
Real Estate	-2.1%	1.0%	1.0%	-22.4%
Materials	-1.3%	3.8%	3.8%	-8.2%

12-month market scenarios (as of May 2023)

<table>
<tr><td>Baseline
(50%)</td><td>The North American labour market is more resilient than expected, and the resulting wealth effect may be enough to help the macro landscape avoid a recession in 2023.

That being said, the recent turmoil in banks shows that the massive liquidity injections from 2020 to 2022 are creating issues for banks, as deposits flee, causing an interest rate mismatch on their balance sheets. Banks tighten their lending standards, and the credit cycle slows abruptly. This context is raising recession risks for 2023, making the risks more balanced than expected last month.

Global inflation remains more persistent than market participants currently expect. Base effects should bring annual inflation to between 3 and 4% by mid-year, before we see a slight reacceleration in the second half.

The Fed and the ECB think their work isn't done and continue to tighten in the first half of 2023. The Bank of Canada stays on the sidelines, as the risks to the financial system lead to tighter lending conditions.

The first rate cuts by central banks do not come until 2024, when inflation finally gives evidence of being tamed.

The housing slowdown caused by the accumulation of higher rates creates a negative wealth effect, keeping the global economy relatively soft. Unemployment rates rise slightly in the second half of 2023, when the full impact of the 2022 rate hikes is felt. China's reopening gives some support to global growth but does not change the overall trajectory.

The war in Ukraine, global droughts and high fertilizer prices continue to put upward pressure on food prices.

The bear market in equities continues to its resolution in the form of a capitulation event, with a likely bottom in 2023.

Sovereign yield curves remain inverted for most of the year. Long rates have risen substantially and present an interesting value proposition, given the growth and monetary policy outlook.

Overweight duration and U.S. dollar, underweight equities.</td></tr>
<tr><td>Bearish: sticky inflation and banking turmoil

(25%)</td><td>Sticky inflation remains above central bank targets, and key rates are hiked higher and faster than the market currently expects.

Elevated short rates drive money out of bank deposits and into money market funds, pressuring bank balance sheets and causing more turmoil for U.S. banks. Canadian banks remain in good shape and do not face such hurdles.

Central banks keep their key rates at the terminal level well into 2024 and use other programs, such as the Bank Term Funding Program (BTFP) and their discount window, to provide liquidity and to avoid bank runs.

The economy slows significantly in the second half of the year, leading to a more material deterioration in employment.

The recession is deeper in Europe and, with fiscal space being limited, governments have less room to stimulate the economy.

The bear market continues, but drawdowns are larger. The absolute low for equities moves to 2024.

The bond bear market is prolonged as market participants are forced to reprice bonds in the wake of higher terminal rates.

Underweight equities, duration and fixed income. Overweight cash and U.S. dollar.</td></tr>
<tr><td>Bullish: falling inflation and pivot

(10%)</td><td>Inflation returns to target more quickly than expected, allowing central banks to start easing in the second half of 2023.

The pressure on banks subsides, and bank failures are limited to specific cases in the United States.

Less monetary tightening is necessary over all, and terminal rates are slightly lower than currently expected.

Most advanced economies avoid a recession.

Energy prices are supported by strong demand.

Base metal prices enter a new super cycle, given their role in the energy transition.

The stock and bond markets rebound as a recession is avoided.

Overweight equities, base metals and bonds. Underweight cash and U.S. dollar.</td></tr>
<tr><td>Other

(15%)</td><td>Banking crisis

Escalation or resolution of the conflict in Ukraine.

Escalation of tensions between China and the United States.

Faster-than-expected global economic slowdown.</td></tr>
</table>

About iAGAM

A magnet for top investment talent, iA Global Asset Management is one of Canada's largest asset managers, with over $100 billion under management across institutional and retail mandates. We help investors achieve their long-term wealth creation goals through innovative investment solutions designed for today's complex markets. We are building upon our historic success, supporting the growth of our core strengths, and exploring innovative ways to meet investor needs. We are rooted in history and innovating for the future. Our experienced portfolio managers use a proprietary investment methodology, rooted in iAGAM's unifying commitment to strong risk management, analytical rigor and a disciplined, process-driven approach to asset allocation and security selection.

Rooted in history, innovating for the future.

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