Russell Investments

# ECONOMIC AND MARKET REVIEW

## FOURTH QUARTER 2023

EMBRACE THE POSS/BLE®

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# AGENDA

# 2023 year in review

**Mar - Apr:** *U.S. Federal Reserve (Fed) raised interest rates by 0.25%; The collapses of SVB, Silvergate Bank & Signature Bank all occurred within five days; UBS agreed to buy Credit Suisse for US$3.25B*

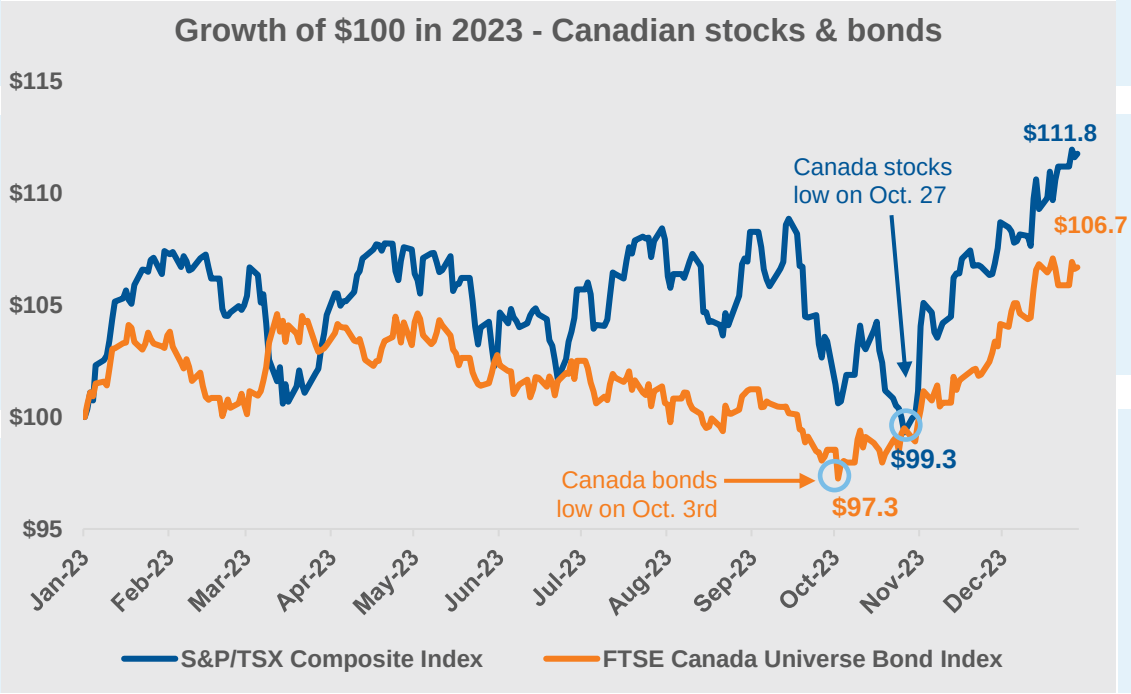
**May:** *Nvidia hit the US$1 trillion valuation mark, riding the wave of A.I. exuberance; Fed raised interest rates by 0.25%*

**Jun - Jul:** *U.S. passe debt ceiling package; S&P 500's bear market ended with a 20% advance from its October '22 low; Fed raised interest rates 0.25% for last time in 2023; BoC raises rates 0.5% over two consecutive meetings, ending 2023 at 5%;*

**Aug/Sept:** *Fitch downgraded U.S. long-term debt rating to AA+ from AAA; America's national debt topped US$33T for the first time; Student debt reached US$1.6T*

**Feb:** *Fed raised interest rates by 0.25%; Yield on US 2-year Treasury bonds go above 5%; An American fighter jet shot down a Chinese air balloon off South Carolina coast*

**Jan:** *Canada unemployment started the year at 5.0%; Bank of Canada raised interest by 25bps; Microsoft made multi-billion-dollar investment in ChatGPT*




**Oct:** *Average on US 30-year fixed rate mortgages hit 8%; Yield on 10-year Treasury Government of Canada bonds rose to 4.3%; Israel-Gaza conflict began*

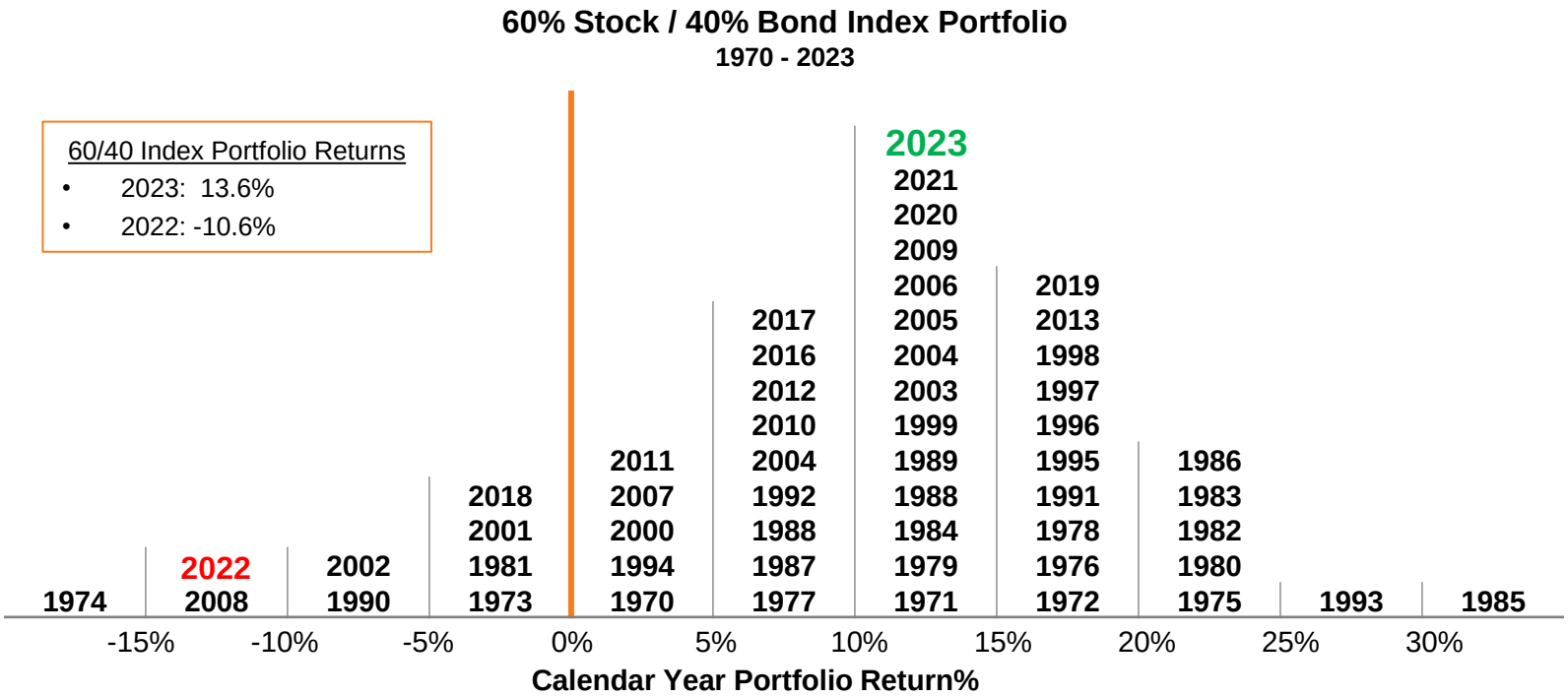
**Nov/Dec:** *U.S. Inflation, as measured by 12-month CPI, hit low of 3.1%; Bitcoin staged its comeback with a 154% surge in 2023; Canada unemployment finished the year at 5.8%*

- Cooling inflation and resilient economic growth saw stocks deliver positive returns (+11.8%)
- Stabilizing interest rates helped bonds produce positive returns as well (+6.7%)

Source: *Seeking Alpha Wall Street Breakfast: https://seekingalpha.com/article/4659661-wall-street-breakfast-what-year & https://seekingalpha.com/article/4659878-wall-street-breakfast-year-in-review & https://seekingalpha.com/article/4660110-wall-street-breakfast-looking-back-2023; CNBC the biggest money stories from 2023:* https://www.cnbc.com/2023/12/30/student-loan-forgiveness-tech-layoffs-big-money-stories-from-2023.html; Morningstar Direct LSEG DataStream, Canada Stocks = S&P/TSX Comp. Index TR CAD; Canada Bonds = FTSE/TMX Canada Universe Bond Index TR CAD. Index returns represent past performance, are not a guarantee of future performance, and are not indicative of any specific investment. Indexes are unmanaged and cannot be invested in directly.

# What a difference a year makes for diversified portfolios

## Stocks and bonds both bouncing back from difficult 2022




- Both stocks and bonds posted positive results following a historically difficult 2022
- Portfolios have demonstrated a pattern of resiliency following tough stretches
  - 2008 → 2009
  - 2018 → 2019
  - 2022 → 2023
- Those moving out of the markets tend to miss the rebound, hurting long-term portfolio results

60/40 Index Portfolio: 20% Canadian Stocks, 40% Global Stocks and 40% Canadian Bonds. Canadian Stocks: S&P/TSX Composite Index; Global Stocks: MSCI World Index (1970-1980), MSCI World ex Canada Index (1981-2023); Canadian Bonds: FTSE Canada Long Term Bond Index (1970-1979), FTSE Canada Universe Bond Index (1980-2023). Index returns represent past performance, are not a guarantee of future performance, and are not indicative of any specific investment. Indexes are unmanaged and cannot be invested in directly.

# Economic indicators dashboard – Canada

## Q4 2023

**Market Volatility**

Stayed at the lower end of the typical range in Q4

**Yield**

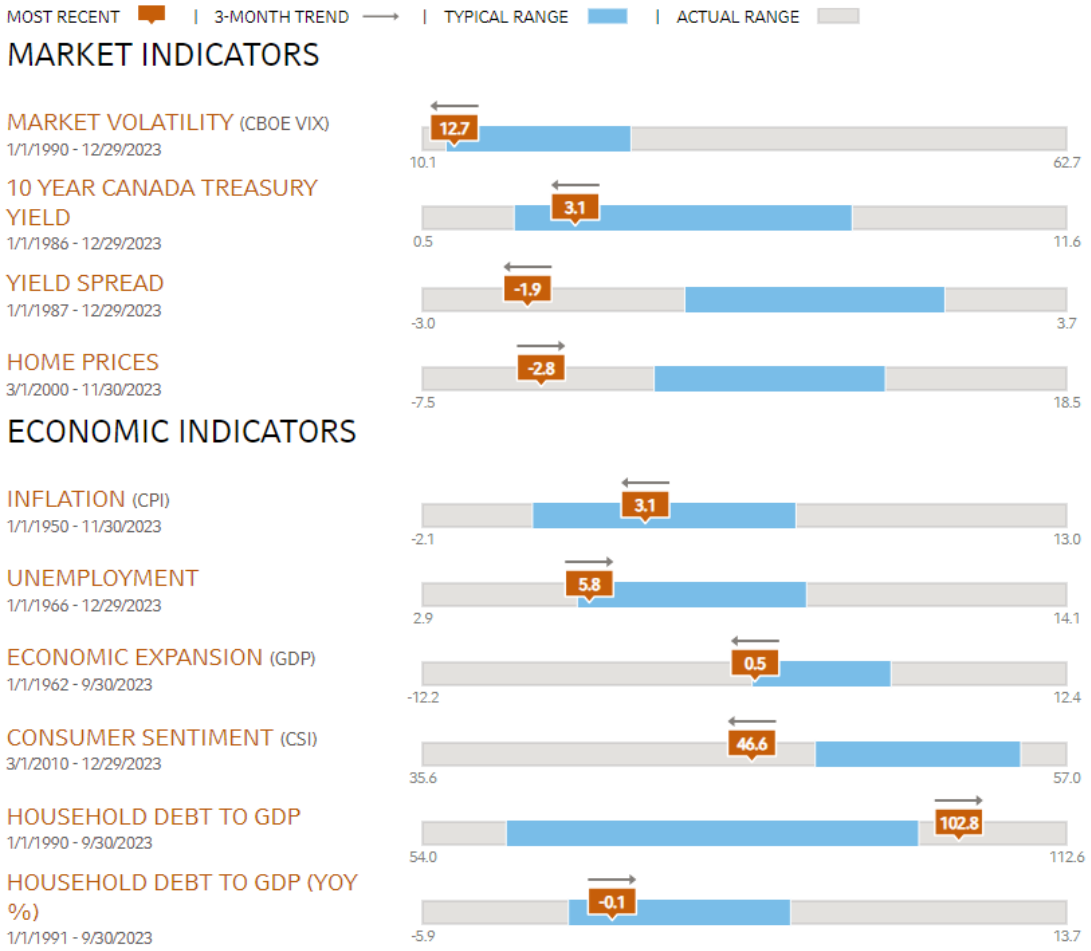
Yields fell as markets turned dovish towards central bank expectations

**Unemployment**

Unemployment rises 0.8% from cycle low to 5.8%

**Consumer Sentiment**

Increasing financial strain from housing and inflation weighs on consumer sentiment




Source: LSEG Datastream, St. Louis Fed, Russell Investments, as of December 29, 2023. **See Slide 28 for category definitions.** Russell Investments' Economic Indicators Dashboard charts several key indicators to help investors assess economic and market trends.

# Economic indicators dashboard – U.S.

## Q4 2023

**Market Volatility**

Stayed at the lower end of the typical range in Q4

**Yield Spread**

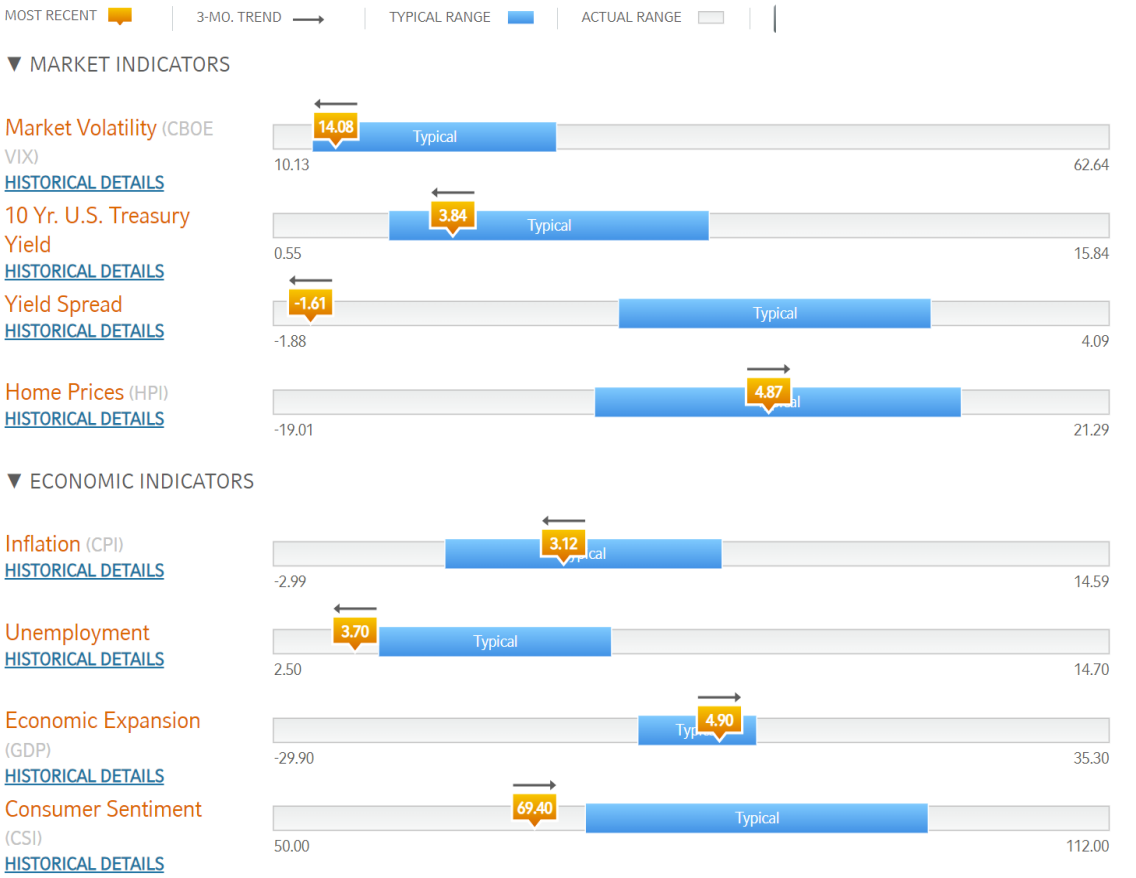
Down from -0.96% at the end of Q3

**Unemployment**

Down from 3.80 at the end of Q3, and still below the typical range in Q4

**Consumer Sentiment**

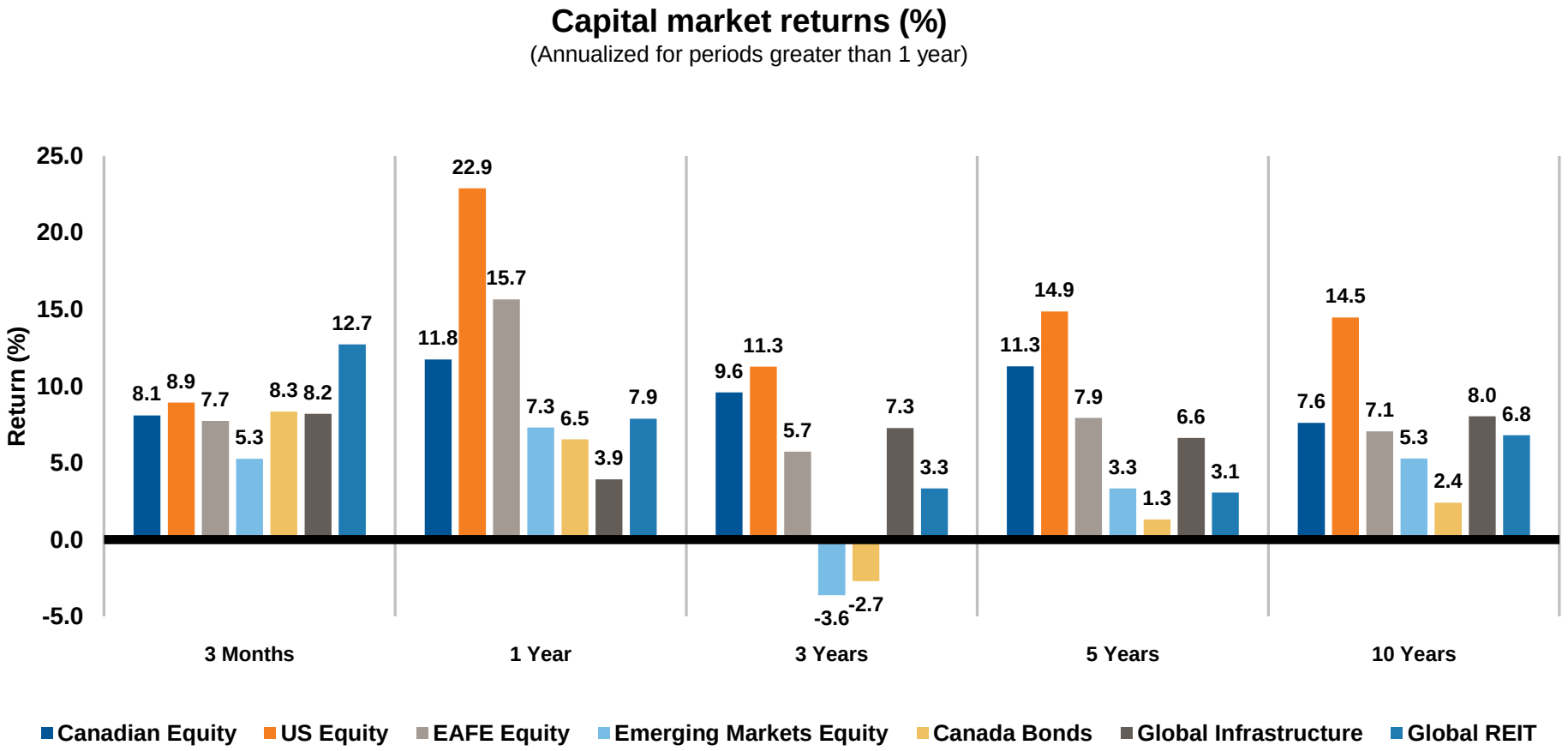
Despite recent increase, fell in Q4 from 71.20 at the end of Q3




Source: http://www.russellinvestments.com, current state as of 01/01/2024. See Slide 29 for category definitions. Russell Investments' Economic Indicators Dashboard charts several key indicators to help investors assess economic and market trends.

# Capital markets

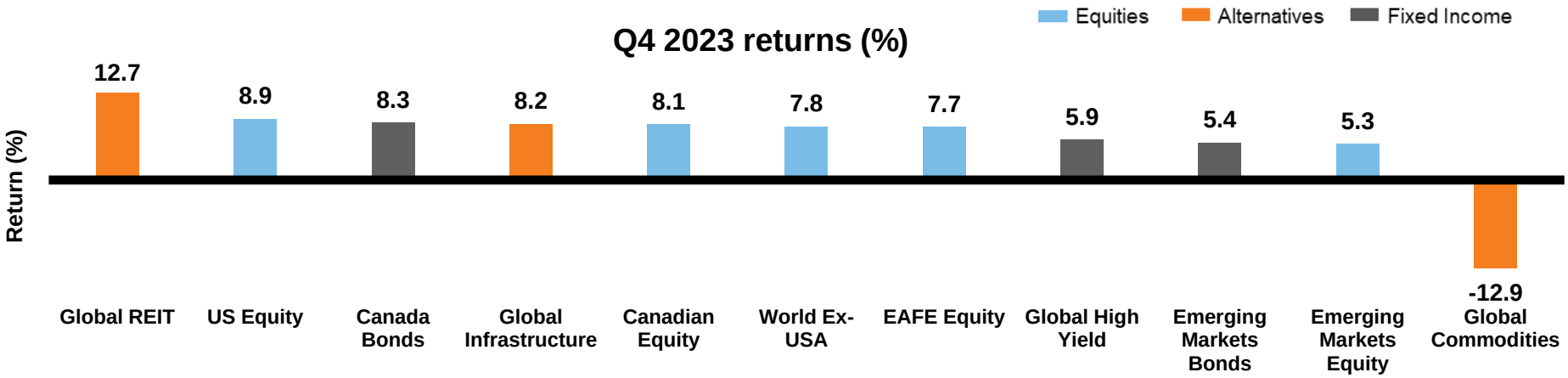
## Periods ending December 31, 2023

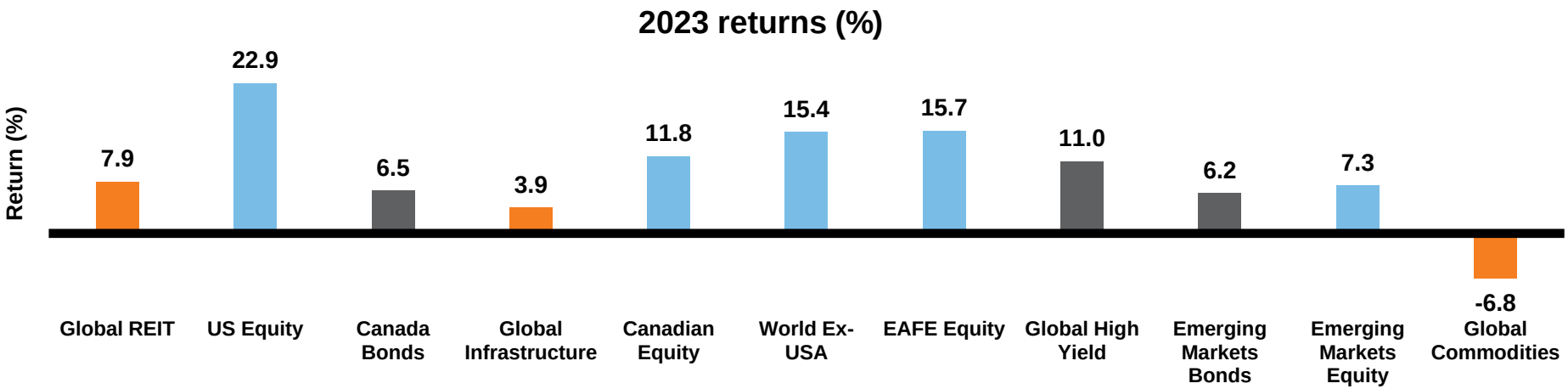



Source: Russell Investments, Morningstar. In CAD. Index returns represent past performance, are not a guarantee of future performance, and are not indicative of any specific investment. Indexes are unmanaged and cannot be invested in directly. Definitions: Canadian Equity = S&P/TSX Composite Index, US Equity = S&P 500 Index, EAFE Equity = MSCI EAFE Index, Emerging Markets Equity = MSCI Emerging Markets Index, Canada Bonds = Bloomberg Canada Aggregate Index, Global Infrastructure = S&P Global Infrastructure Index, Global Real Estate Investment Trusts (REITs) = FTSE EPRA NAREIT Developed Index. Returns are annualized except for periods less than one year. EAFE is an acronym referring to Europe, Australasia and the Far East.

# What worked and what didn't

## Q4 2023 vs. 2023

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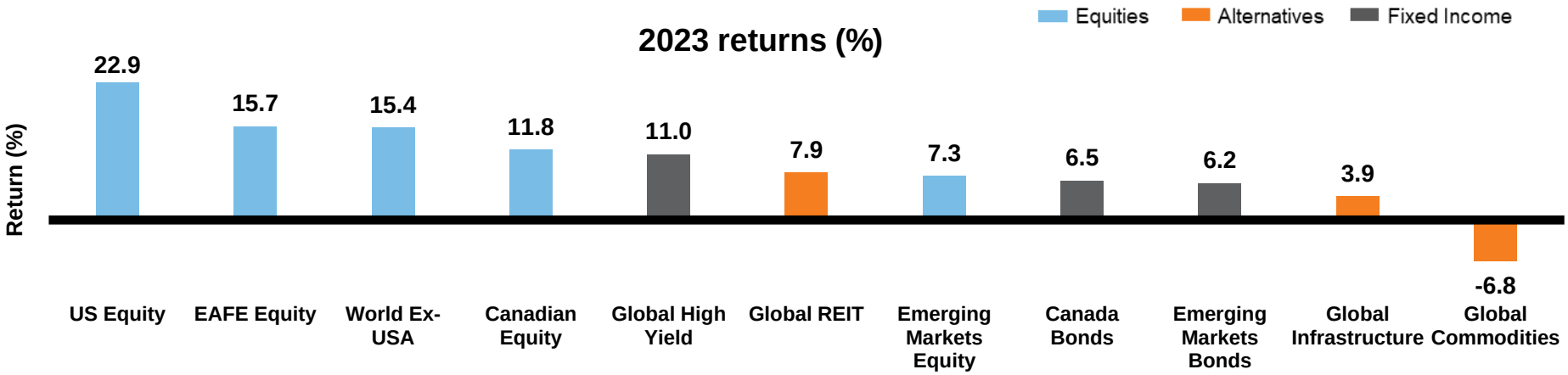
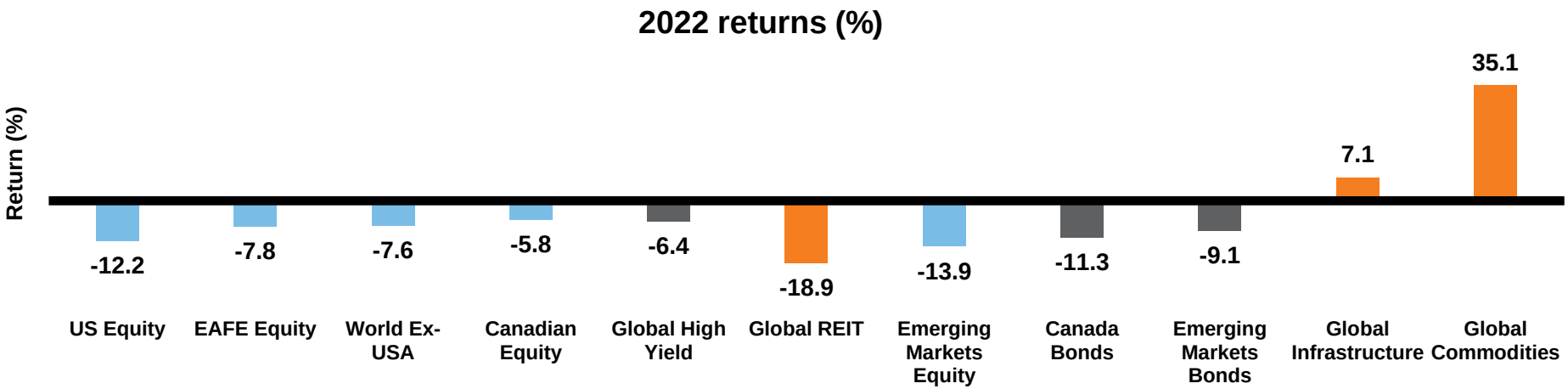
# What worked and what didn't

## 2023 vs. 2022

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# Lack of repeatable patterns

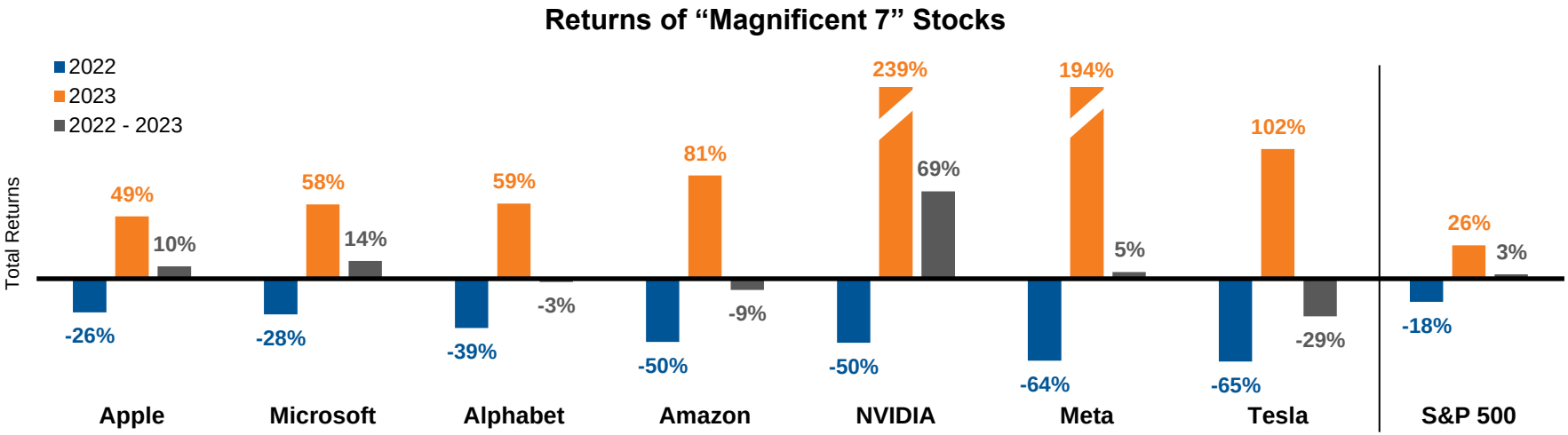
## The case for diversification

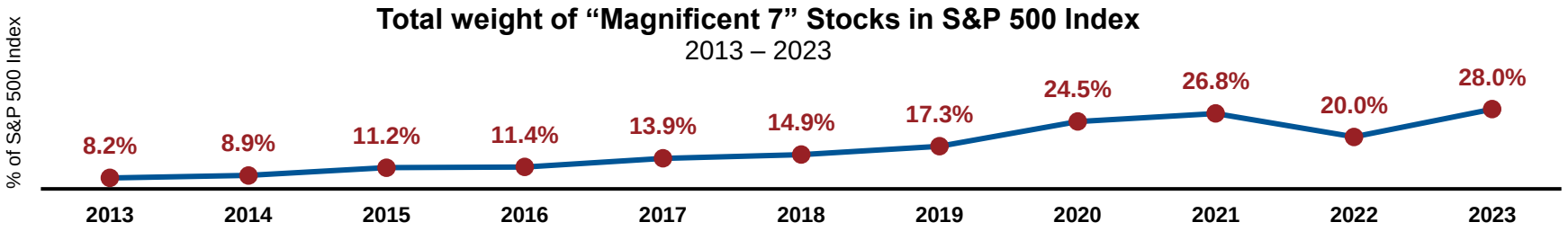
| | 10 YEARS ENDING 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 10 YEARS ENDING 2023 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Strongest | Emerging Markets 9.4% | Global REITs 26.3% | US Equity 21.6% | Canadian Equity 21.1% | Emerging Markets 28.7% | EM Debt 6.3% | US Equity 24.8% | Emerging Markets 16.6% | Commodities 39.2% | Commodities 35.1% | US Equity 22.9% | US Equity 14.5% |
| | Global Infrastructure 8.2% | US Equity 23.9% | EM Debt 21.5% | Global High Yield 10.3% | International Equity 17.4% | Global High Yield 4.6% | Canadian Equity 22.9% | US Equity 16.3% | US Equity 27.6% | Global Infrastructure 7.1% | International Equity 15.7% | Global Infrastructure 8.0% |
| | Canadian Equity 8.0% | Global Infrastructure 23.2% | Global REITs 20.0% | Global Infrastructure 8.5% | Developed Ex-US Equity 16.6% | US Equity 4.2% | Global Infrastructure 20.6% | 60/40 9.5% | Global REITs 26.1% | Canadian Equity -5.8% | Developed Ex-US Equity 15.4% | Canadian Equity 7.6% |
| | Global High Yield 7.2% | EM Debt 14.2% | International Equity 19.5% | US Equity 8.1% | US Equity 13.8% | Global REITs 3.8% | Developed Ex-US Equity 16.9% | Canada Bonds 8.4% | Canadian Equity 25.1% | Global High Yield -6.4% | 60/40 12.6% | Developed Ex-US Equity 7.1% |
| | Global REITs 6.7% | 60/40 11.2% | Developed Ex-US Equity 16.8% | Emerging Markets 7.7% | Global Infrastructure 12.2% | Canada Bonds 1.3% | Global REITs 16.8% | International Equity 6.4% | Developed Ex-US Equity 12.2% | Developed Ex-US Equity -7.6% | Canadian Equity 11.8% | International Equity 7.1% |
| | EM Debt 6.4% | Canadian Equity 10.6% | Global High Yield 16.7% | Commodities 7.5% | Canadian Equity 9.1% | Global Infrastructure -1.3% | International Equity 16.5% | Developed Ex-US Equity 6.2% | 60/40 11.1% | International Equity -7.8% | Global High Yield 11.0% | 60/40 6.9% |
| | 60/40 6.1% | Canada Bonds 9.0% | 60/40 7.7% | EM Debt 6.1% | 60/40 9.0% | 60/40 -1.5% | 60/40 15.5% | Canadian Equity 5.6% | Global Infrastructure 10.9% | EM Debt -9.1% | Global REITs 7.9% | Global REITs 6.8% |
| | Developed Ex-US Equity 5.5% | Global High Yield 9.0% | Global Infrastructure 6.2% | 60/40 5.9% | Global REITs 4.1% | International Equity -5.6% | Emerging Markets 12.9% | Global High Yield 5.1% | International Equity 10.8% | 60/40 -9.4% | Emerging Markets 7.3% | Global High Yield 5.9% |
| | US Equity 5.3% | Emerging Markets 7.0% | Canada Bonds 3.7% | Canada Bonds 1.4% | Global High Yield 3.2% | Developed Ex-US Equity -5.9% | Commodities 11.7% | EM Debt 4.7% | Global High Yield 0.1% | Canada Bonds -11.3% | Canada Bonds 6.5% | Emerging Markets 5.3% |
| | International Equity 5.3% | Developed Ex-US Equity 4.8% | Emerging Markets 2.4% | Global REITs 1.4% | Canada Bonds 2.4% | Commodities -6.1% | EM Debt 7.4% | Global Infrastructure -7.4% | EM Debt -2.5% | US Equity -12.2% | EM Debt 6.2% | EM Debt 5.3% |
| | Canada Bonds 5.1% | International Equity 4.1% | Canadian Equity -8.3% | Developed Ex-US Equity -0.3% | EM Debt 1.1% | Emerging Markets -6.5% | Canada Bonds 6.9% | Global REITs -9.8% | Canada Bonds -2.6% | Emerging Markets -13.9% | Global Infrastructure 3.9% | Canada Bonds 2.4% |
| Weakest | Commodities -1.2% | Commodities -27% | Commodities -19.5% | International Equity -2% | Commodities -1.2% | Canadian Equity -8.9% | Global High Yield 6.9% | Commodities -25.1% | Emerging Markets -3.1% | Global REITs -18.9% | Commodities -6.8% | Commodities -1.5% |

Source: Morningstar Direct, Russell Investments. *Annualized return in CAD. Canadian equity=S&P/TSX Composite Index, US Equity=S&P 500 Index, International Equity=MSCI EAFE Index, Emerging Markets=MSCI Emerging Markets Index, Developed Ex-US Equity=MSCI World Ex-US Index, Canada Bonds=Bloomberg Canada Aggregate Index, EM Debt=Bloomberg EM USD Aggregate Index, Global High Yield=Bloomberg Global High Yield Index, Global Infrastructure=S&P Global Infrastructure Index, Global REITS=FTSE EPRA NAREIT Developed Index, Commodities= S&P Goldman Sachs Commodities Index, 60/40 Balanced Portfolio=20% Canadian Equity (S&P/TSX Composite Index), 20% U.S. Equity (S&P 500 Index), 20% International Equity (MSCI EAFE Index), 40% Canadian bonds (Bloomberg Canada Aggregate Index). Indexes are unmanaged and cannot be invested in directly. Past performance is not indicative of future results. Index performance does not include fees and expenses an investor would normally incur when investing in a mutual fund. Diversification and strategic asset allocation do not assure profit or protect against loss in declining markets.

# “Magnificent 7” stocks led the way in 2023

## Significant bounce back and larger market weight after lagging in 2022



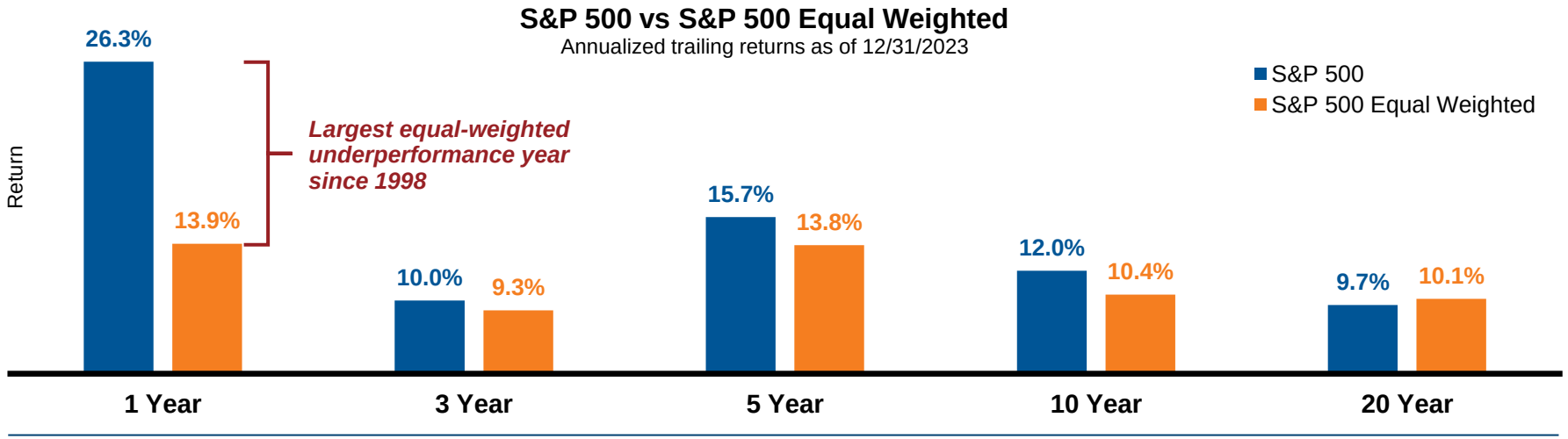



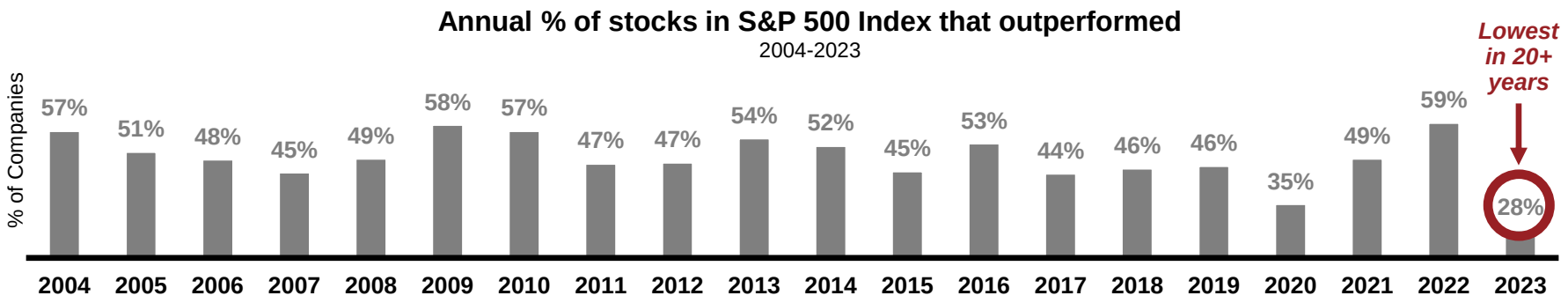

- The “Magnificent 7” dominated returns within U.S. stocks in 2023
- Despite strong returns this year, steep losses in 2022 put most year-over-year results in line with the market
- These companies now represent nearly 30% of the S&P 500 Index after recent relative strength

Source: Morningstar and Russell Investments. As of 12/31/2023. Alphabet represents combined A&C shares. Weights based on end of each year. Index returns represent past performance, are not a guarantee of future performance, and are not indicative of any specific investment. Numbers may not be exact due to rounding. “Magnificent 7” refers to Apple, Microsoft, Alphabet, Amazon, NVIDIA, Tesla and Meta.

# Narrow leadership in U.S. equities

## Largest stocks have outperformed as many others have not kept pace



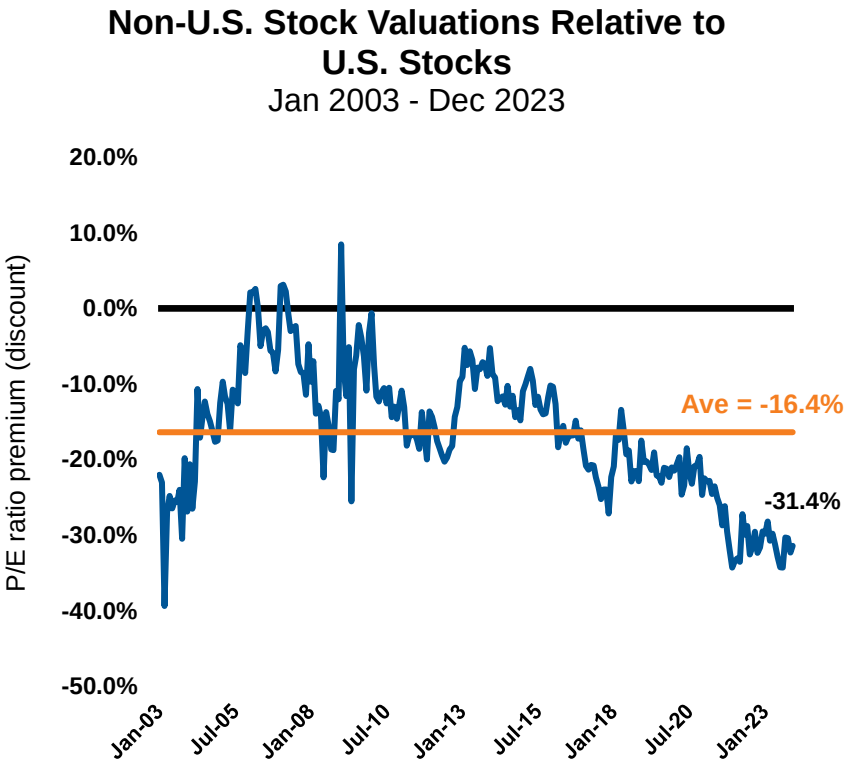



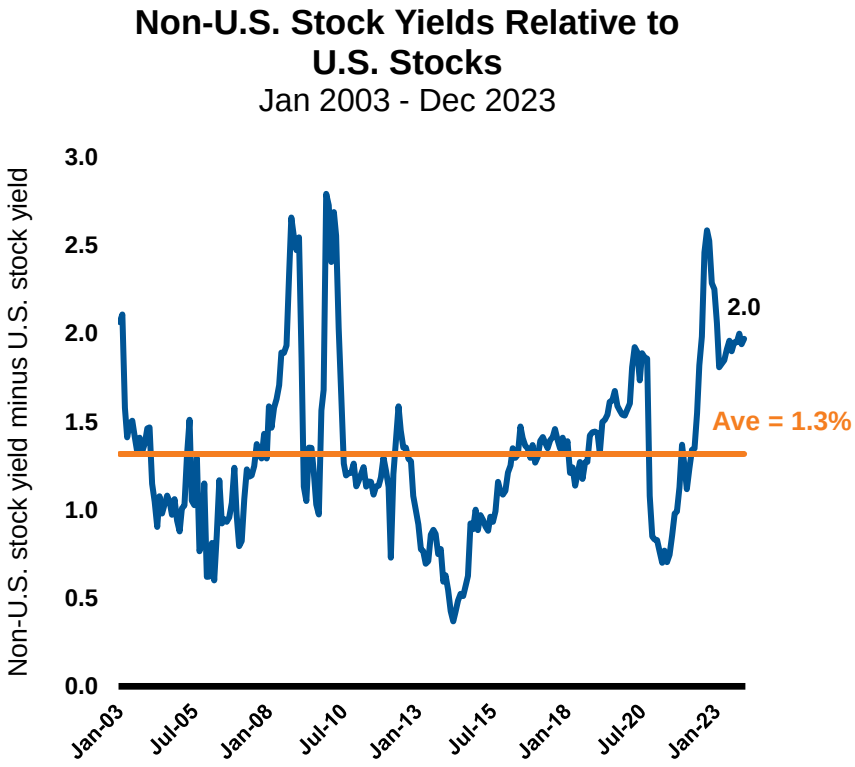

- Strong returns from the largest stocks have resulted in wide performance differences from rest of market
- Despite recent differences, size leadership has rotated and delivered similar long-term results

Source: Russell Investments, Morningstar and FactSet. In USD. Weights based on year end values. Alphabet represents both A&C share classes. Index returns represent past performance, are not a guarantee of future performance, and are not indicative of any specific investment. Indexes are unmanaged and cannot be invested in directly.

# Valuations & yields could be catalyst for non-U.S. returns

## International stock fundamentals look attractive



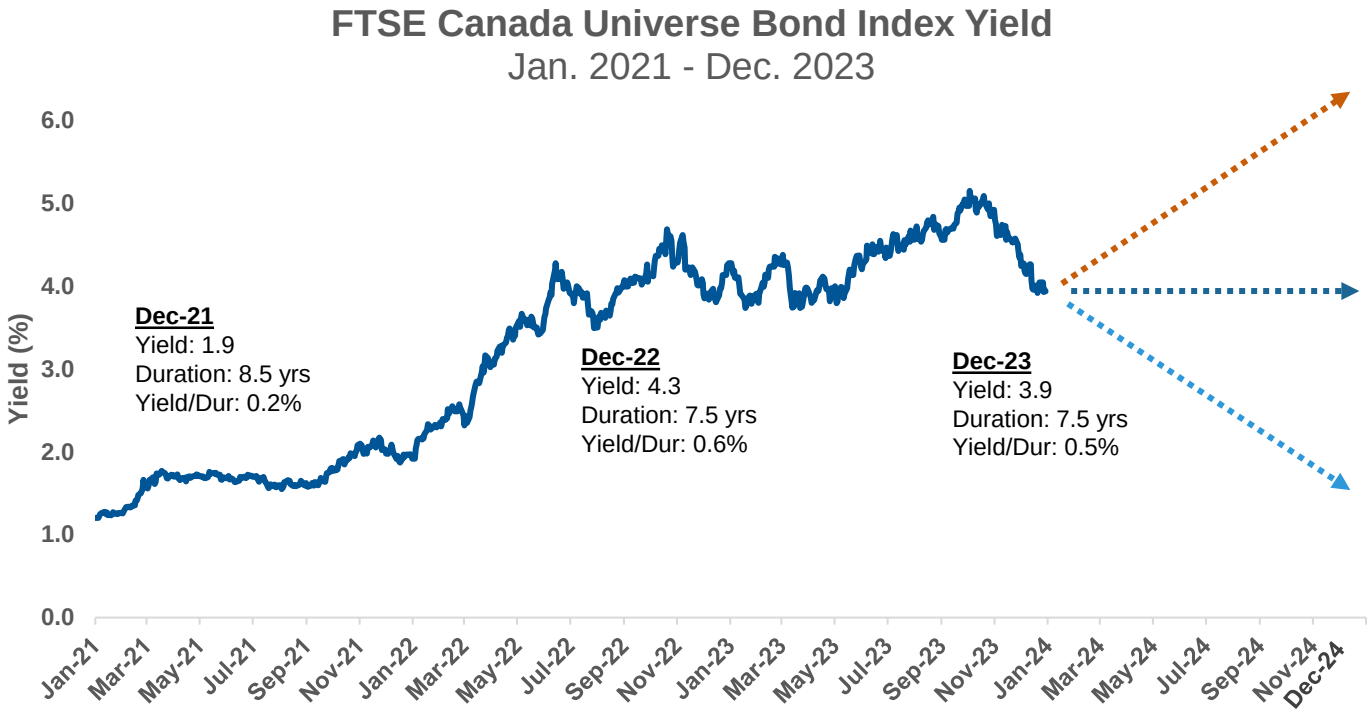




- Relative valuations, as measured by Price/Earnings ratio, are near 20-year lows
- International stocks are providing investors with an attractive yield

Source of Data: Morningstar's Current and Historical Price/Earnings Calculations and Dividend Yield Calculations for the S&P 500 Index (US Stocks) and MSCI EAFE Index (Non-U.S. Stocks)

# Understanding the impact of changing rates

## Falling rates can boost return from bonds




**HYPOTHETICAL 1-YEAR RETURNS:**

**Rates rise 1.0%**
Yield Return: 3.9%
Price Return: -7.5%
**1-Yr Return: -3.6%**

**Rates unchanged**
Yield Return: 3.9%
Price Return: 0.0%
**1-Yr Return: +3.9%**

**Rates fall -1.0%**
Yield Return: 3.9%
Price Return: 7.5%
**1-Yr Return: +11.4%**

- Despite rising for most of 2023, the yield on the FTSE Canada Universe Bond Index is slightly lower than one year ago
- Higher yields help to offset the price impact of further rate increases
- If rates fall, price appreciation can boost returns as demonstrated in Q4

Source: LSEG DataStream. Data as of 12/31/2023. Yield-to-Worst and Duration of the FTSE Canada Universe Bond Index. Index returns represent past performance, are not a guarantee of future performance, and are not indicative of any specific investment. Indexes are unmanaged and cannot be invested in directly.

# Bonds close out 2023 with a bang

## Strong returns in Q4 as rates fell

### 2023 yield changes and returns by bond type:

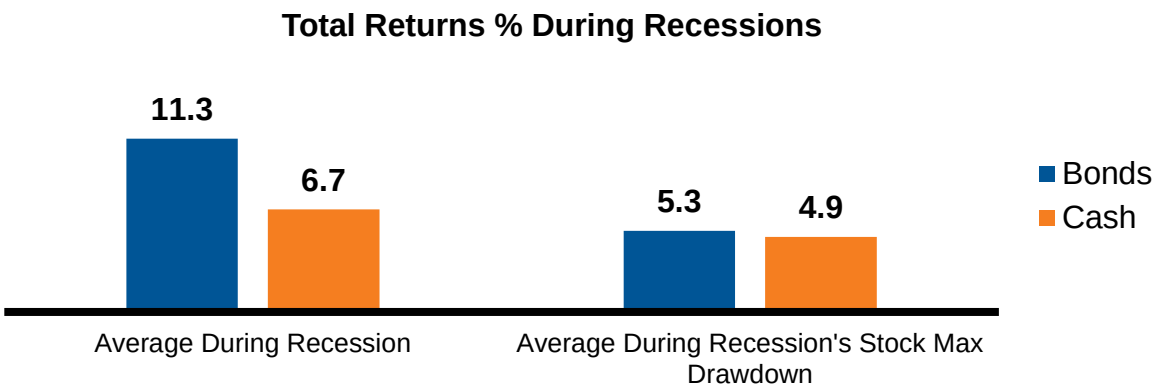
| | Q1 - Q3 | | Q4 | | | 2023 | |
|---|---|---|---|---|---|---|---|
| Bond type | Yield Change % | Return % | Yield Change % | Return % | Best Quarter Since | Yield Change % | Return % |
| Canada Government | +0.73 | -2.19 | -0.99 | 8.49 | 1Q 1986 (Index inception) | -0.26 | 6.11 |
| Canada Universe | +0.69 | -1.46 | -1.03 | 8.27 | 2Q 1985 | -0.34 | 6.69 |
| Canada Corporate | +0.63 | 0.69 | -1.13 | 7.63 | 2Q 2020 | -0.50 | 8.37 |
| Canada Federal | +0.78 | -1.69 | -1.01 | 6.80 | 4Q 2008 | -0.23 | 5.00 |

- Interest rates and bond prices generally move in opposite directions
- Negative returns continued into 2023 for most bond types as rates kept moving up
- Bonds surged in Q4 as interest rates dropped sharply, resulting in positive calendar-year returns

Source: FTSE Russell and Russell Investments as of 12/31/2023. Canada Universe: FTSE Canada Universe Bond Index; Canada Government: FTSE Canada Universe Government Bond Index; Canada Corporate: FTSE Canada Universe Corporate Bond Index; Canada Federal: FTSE Canada Universe Federal Bond Index. Yield represents month end average yield. Index returns represent past performance, are not a guarantee of future performance, and are not indicative of any specific investment. Indexes are unmanaged and cannot be invested in directly.

# Bonds or cash as a better risk hedge?

## Bonds appear to be the better equity diversifier during recessions



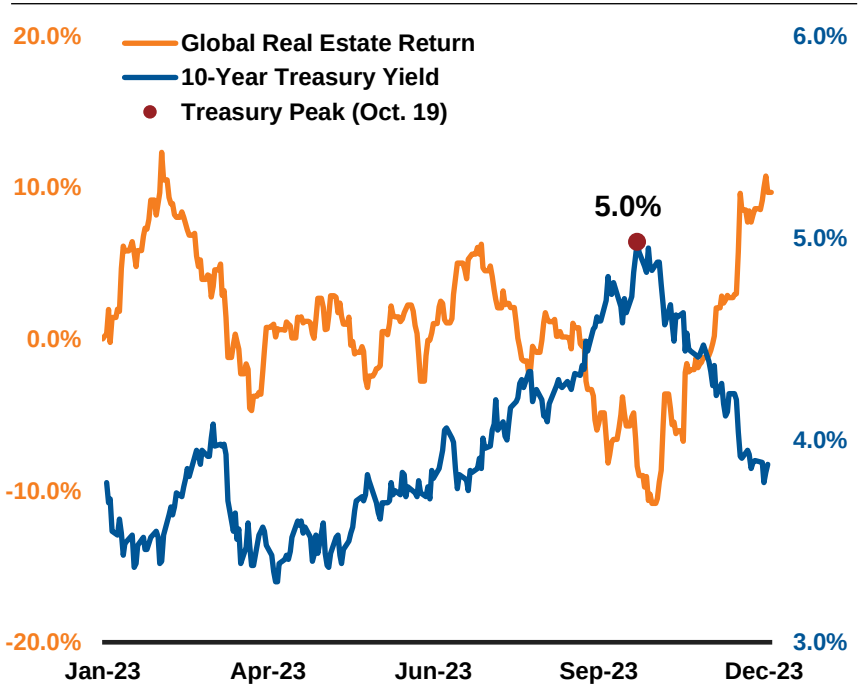

- Duration is often the best diversification for stocks during downturns
- Investment grade bonds provide higher exposure to duration than cash

| NBER Recession Periods | Stock Returns | Bond Returns | Cash Returns | Stocks Max Drawdown | Bonds returns during max drawdown | Cash returns during max drawdown |
|---|---|---|---|---|---|---|
| 12/69 – 11/70 | -12.3% | 14.0% | 6.8% | -20.9% | 10.2% | 5.1% |
| 11/73 – 03/75 | -32.7% | 8.3% | 10.9% | -39.0% | 5.6% | 7.3% |
| 01/80 – 07/80 | 16.4% | 6.2% | 6.7% | -9.7% | -5.8% | 2.2% |
| 07/81 – 11/82 | 14.5% | 37.9% | 18.5% | -11.7% | 15.6% | 12.5% |
| 07/90 – 03/91 | 7.6% | 8.9% | 5.4% | -14.1% | 2.1% | 2.6% |
| 03/01 – 11/01 | -7.2% | 6.5% | 2.9% | -15.4% | 5.7% | 2.4% |
| 12/07 – 06/09 | -35.5% | 7.5% | 2.2% | -48.8% | 4.2% | 2.1% |
| 03/20 – 04/20 | -1.1% | 1.2% | 0.2% | -12.4% | -0.6% | 0.1% |

Sources: National Bureau of Economic Research, U.S. Stocks: S&P 500 Index, Bond Returns: Bloomberg Barclays US Aggregate Bond Index, Cash: Citigroup 1-3 Month Tbill Index. . Index returns represent past performance, are not a guarantee of future performance, and are not indicative of any specific investment. Indexes are unmanaged and cannot be invested in directly.

# REIT resurgence?

## Falling interest rates could support REITs



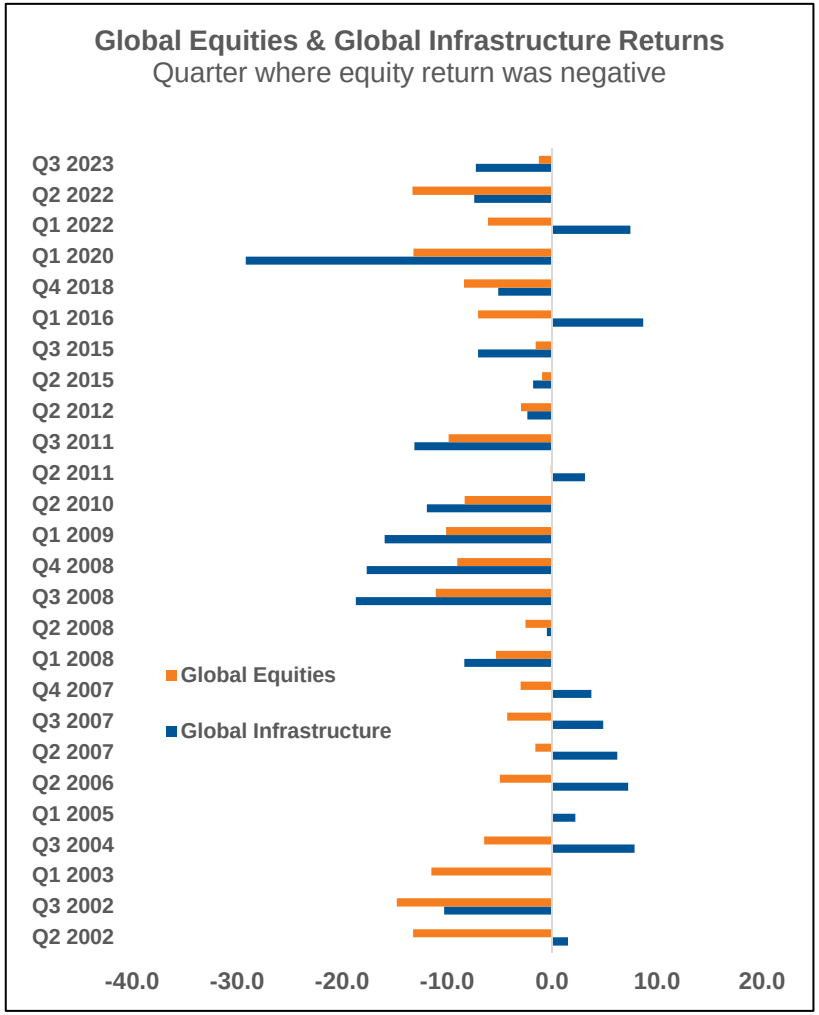

| Sectors | Weight | Returns to and from Treasury peak: Jan. 1 - Oct. 19 | Returns to and from Treasury peak: Oct. 20 - Dec. 31 |
|---|---|---|---|
| Diversified | 18.6% | -11.8% | 16.5% |
| Retail | 15.3% | -10.8% | 23.4% |
| Residential | 15.2% | -3.1% | 14.9% |
| Industrial | 14.2% | -7.7% | 26.0% |
| HealthCare | 7.7% | -0.6% | 12.4% |
| Office | 7.0% | -18.4% | 24.8% |
| Data Centers | 8.0% | 10.3% | 15.7% |
| Self Storage | 5.8% | -9.1% | 29.0% |
| Specialty | 3.2% | -7.3% | 16.6% |
| Lodging/Resorts | 2.8% | -2.2% | 22.6% |
| Industrial/Office | 2.2% | -13.2% | 33.7% |
| **Global Real Estate** | - | -8.4% | 19.7% |

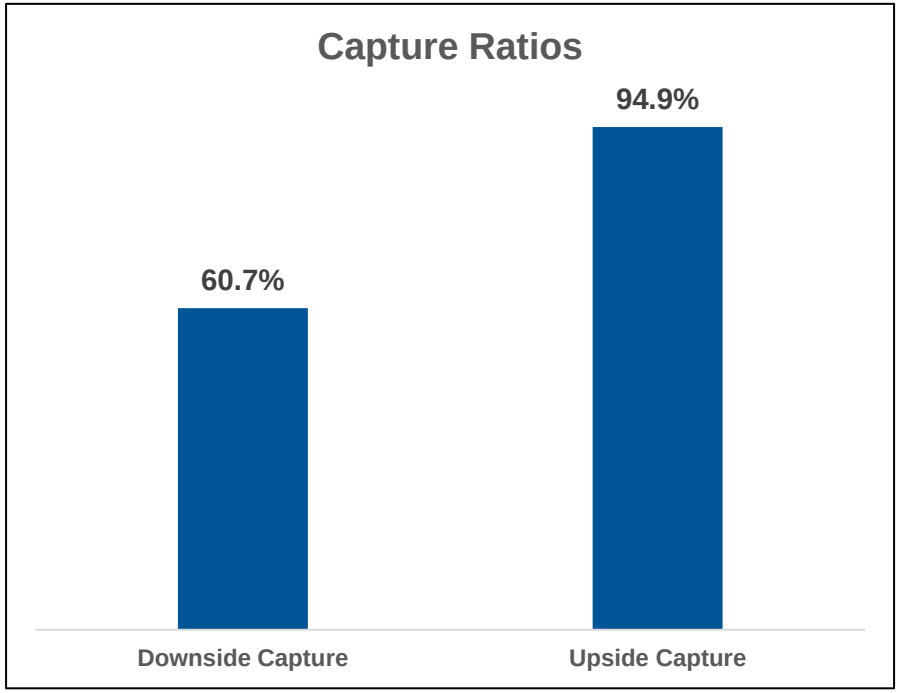
- Negative real estate sentiment and volatility in 2023 were driven by higher rates and unfavorable headlines
- Real estate rebounded after the 10-year Treasury bill yield fell from its highest level since 2007
- Lower interest rate sentiment in 2024 could continue to benefit the real estate market

Sources: Morningstar, St. Louis Fred, Bloomberg and FTSE Russell. Global Real Estate: FTSE EPRA Nareit Developed NR Index, Individual Sectors: Respective FTSE EPRA Nareit Developed TR Indices (see appendix), except data centers and specialty which use Bloomberg data. 10 Year Treasury: Market Yield on U.S. Treasury Securities at 10-Year Constant Maturity, Quoted on an Investment Basis. Index returns represent past performance, are not a guarantee of future performance, and are not indicative of any specific investment.

# Global Infrastructure

## A defensive equity option




- Infrastructure assets have historically behaved defensively during global equities market drawdowns

Source: LSEG DataStream, Russell Investments. Based on quarterly data as of 12/31/2023. Capture ratios based on quarterly data since the first full quarter since the inception of the global infrastructure index. Global Infrastructure = S&P Global Infrastructure Index; Global Equities = MSCI World Index. Returns in CAD. Index returns represent past performance, are not a guarantee of future performance, and are not indicative of any specific investment. Indexes are unmanaged and cannot be invested in directly.

# Russell Investments' global market outlook

## ECONOMIC VIEWS

### U.S. ECONOMY

- U.S. recession risks have not completely dissipated. We assess U.S recession probability at 45% on a 12-18-month horizon, which is still higher than normal
- U.S. Federal Reserve (Fed) will likely cut interest rates this year, but timing and magnitude of rate cuts depends on how the economy evolves

### CANADA

- Mild-to-moderate recession likely over next 12-18 months
- Economic data on balance has been softer than in the U.S.

### EUROZONE

- Recession risks continue to remain elevated, and some signs of soft economic data have already appeared

### CHINA

- Property sector continues to be a challenge
- Growth target likely to be set at "around 5%" again for 2024; more stimulus will be needed to achieve this target

### FED and FISCAL POLICY

- Fed has likely finished lifting rates due to slowing jobs growth and declining inflation
- With rising debt-to-GDP ratios, the era of big fiscal expansion is probably over. Politicians likely to be constrained by debt burdens and interest costs.

## ASSET CLASSES

### GLOBAL EQUITIES

- Potentially limited upside given expensive multiples and recession risk
- Non-U.S. developed stocks ae cheaper than U.S. equities, but lack cycle support
- China's economy is holding back expectations for the emerging markets

### FIXED INCOME

- Bond yields fell in Q4 2023, but government bonds may still have attractive valuations
- Credit spreads could widen further if a recession materializes
- Potential for the yield curve to re-steepen if more aggressive rate cuts come in 2024 and 2025

### REAL ASSETS

- REITs rallied hard in December as markets became more confident that interest rates have peaked
- REITs and listed infrastructure look attractively valued relative to global equities

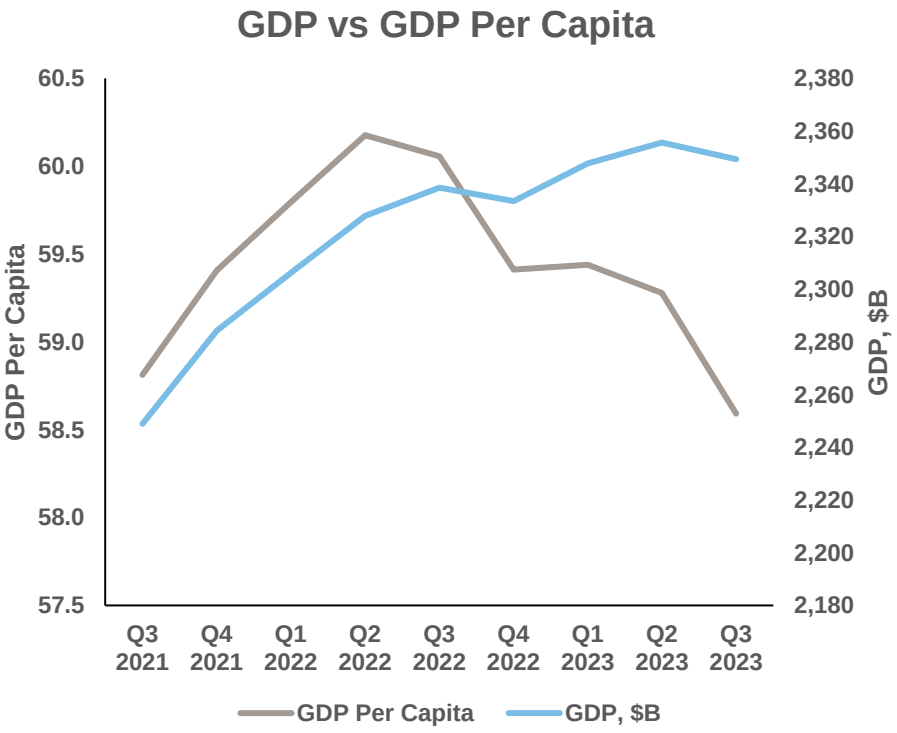
### CURRENCIES

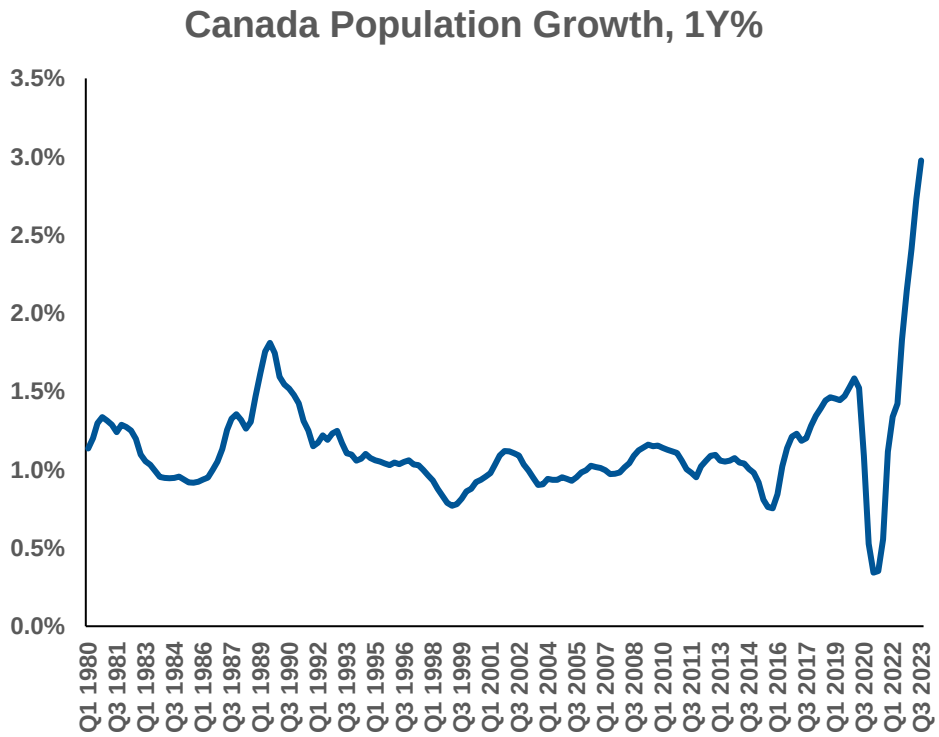
- USD overvaluation could put downward pressure in the medium-term, but path less certain in the short-term
- Yen could appreciate with moves away from yield curve control strategy

There is no guarantee the stated expectations will be met.
As of January 2024. Forecasting represents predictions of market prices and/or volume patterns utilizing varying analytical data. It is not representative of a projection of the stock market, or of any specific investment.

# Canadian economy by another measure

## GDP per capita raises red flags



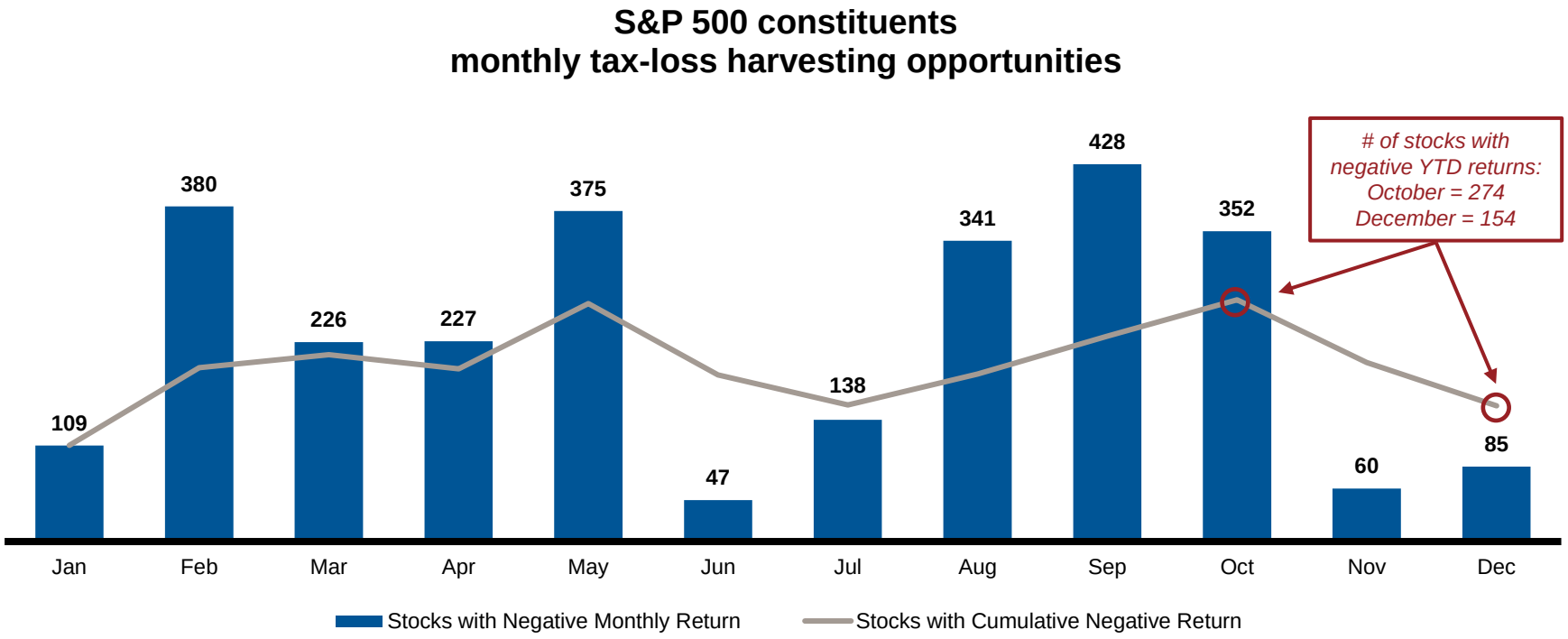




- Population growth has risen to more than double the long-term average; while immigration has helped to loosen labor markets, it has contributed to housing-related inflation
- Although GDP growth has trended higher over the past two years, on a per-capita basis, growth has not kept pace with the rate of population growth; GDP per capita has contracted by over -3% from a recent peak

Source: LSEG DataStream. As of Q3 2023. GDP=Gross Domestic Product.

# Tax-loss harvesting opportunities year-round

## Waiting to harvest losses at end of year could lead to missed opportunities

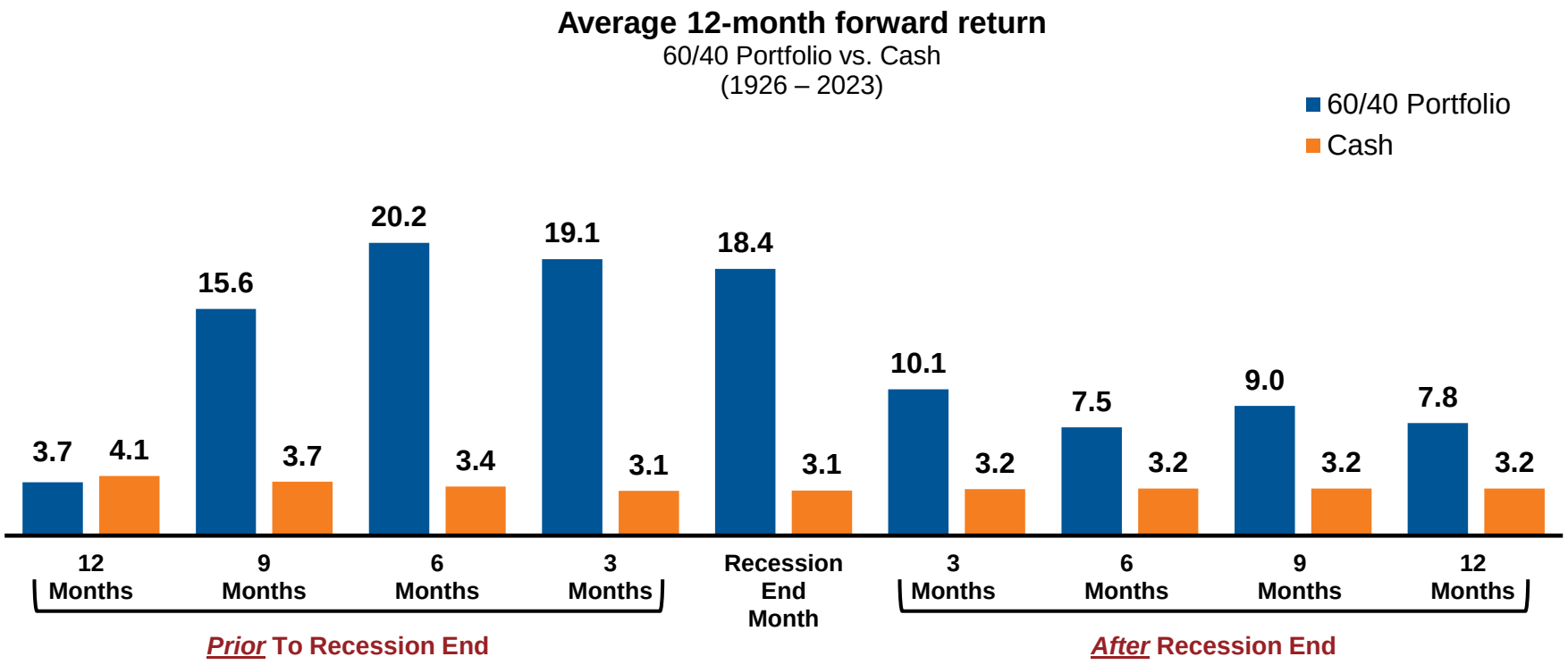



- In November and December only 60 and 85 stocks, respectively, had a negative monthly return. Missing out on the loss harvesting opportunities in the down months earlier in the year could be costly.
- The S&P 500 Index showed strong returns in 2023, with a 26.3% return despite more than 150 constituents posting a negative return for the year.
- Even in periods of strong positive performance, tax-loss harvesting strategies can be executed.

Source: Morningstar Direct. Stocks represent companies in the S&P 500 Index on 12/31/2023. Index returns represent past performance, are not a guarantee of future performance, and are not indicative of any specific investment. Indexes are unmanaged and cannot be invested in directly.

# Should you wait?

## Markets tend to turn around before the economy does

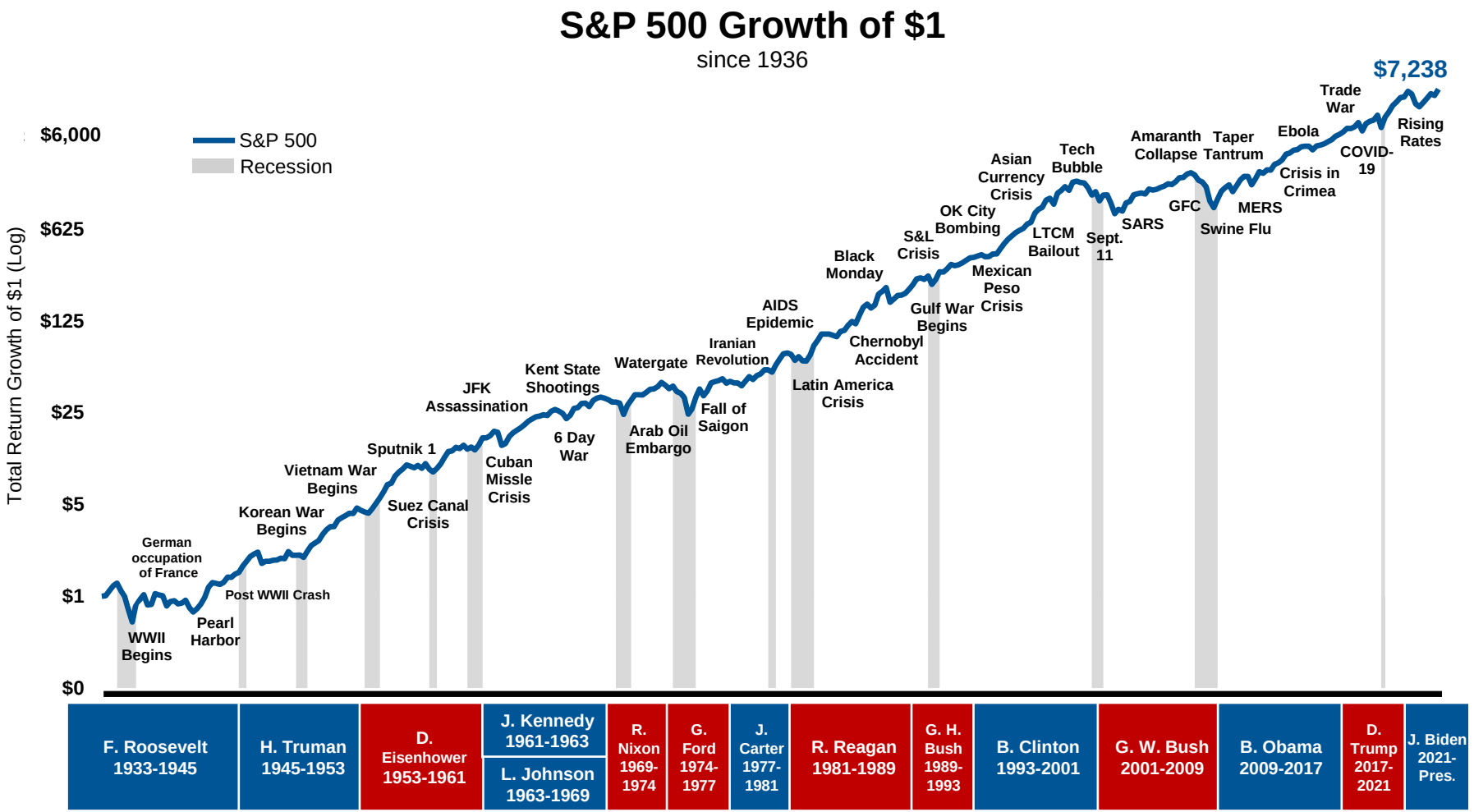



- Equity markets tend to be positive leading up to the end of a recession while bonds typically provide a ballast
- Waiting to invest until the recession is declared over may dampen long-term results

Source: 60/40 Portfolio: 60% U.S. Equity / 40% Bonds. U.S. Equity: Ibbotson U.S. Equity Index (1926 – 1969), S&P 500 Index (1970 – Present). Bonds: Ibbotson Intermediate Bond Index (1926 – 1975), Bloomberg U.S. Aggregate Bond Index (1976-Present). Averages include the 16 U.S. recessions from 1926 – 2023 as defined by NBER's business cycle expansions and contractions data. Indexes are unmanaged and cannot be invested in directly. Returns represent past performance, are not a guarantee of future performance, and are not indicative of any specific investment.

# U.S. stock market growth & election cycles

## Resilient over the long-term

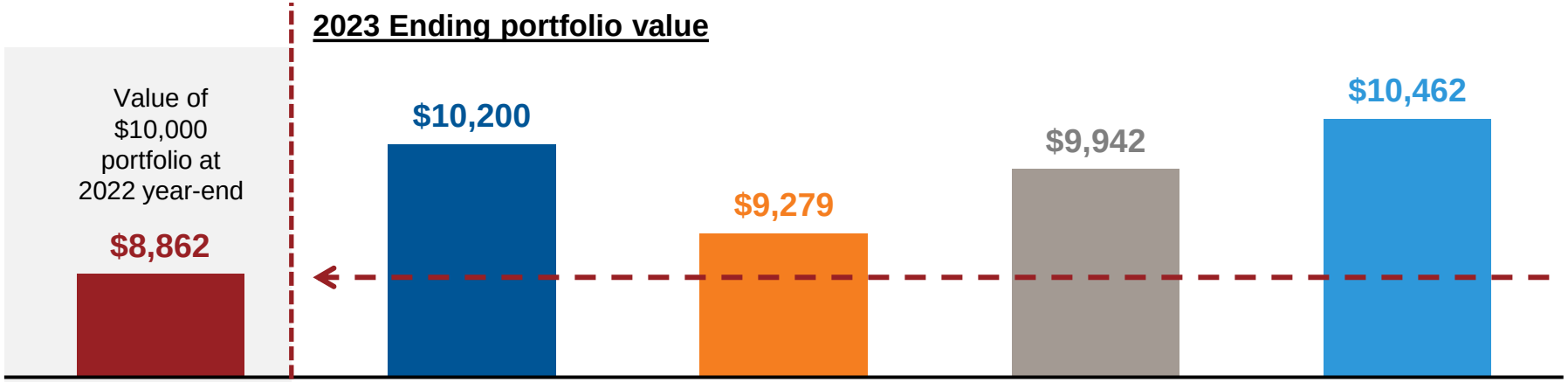



U.S. Stocks: S&P 500 Index as of 12/31/2023. Index returns represent past performance, are not a guarantee of future performance, and are not indicative of any specific investment. Indexes are unmanaged and cannot be invested in directly.

# Stick to the plan

## Staying invested was rewarded in 2023

- **In 2022, a $10,000 portfolio of 60% global stocks / 40% bonds shrank to $8,862 by year-end**
- **In 2023, investors had several options for that portfolio:**




| | Stuck to plan | Went to cash | Reduced risk | Increased risk |
|---|---|---|---|---|
| **Investor action:** | Maintained the existing allocation of 60% stocks and 40% bonds. | Sold all current stock and bond positions and invested in cash. | Stayed invested but reallocated portfolio to 40% stocks / 60% bonds to limit further losses. | Reallocated portfolio to 80% stocks / 20% bonds to take advantage of lower prices. |
| **2023 Portfolio Results:** | **+15.1%** Strong recovery from 2022 and almost back up to initial investment amount. | **+4.7%** Easiest to stomach in short-term, however significantly underperformed other options. | **+12.2%** Solid returns in 2023, but underperformed "Stuck to plan" option. | **+18.1%** Best outcome, but requires strong investor resolve in volatile markets. |

Source: Morningstar. In CAD. Stocks represented by MSCI World Index, bonds represented by Bloomberg Canada Aggregate Bond Index and cash represented by FTSE Canada 91 Day TBill Index. Index returns represent past performance, are not a guarantee of future performance, and are not indicative of any specific investment.

# Index definitions

**FTSE EPRA/NAREIT Developed Index:** A global market capitalization weighted index composed of listed real estate securities in the North American, European and Asian real estate markets.

**FTSE NAREIT All Equity Index:** Measures the performance of the commercial real estate space across the U.S. economy offering exposure to all investment and property sectors.

**JP Morgan Emerging Market Bond Index (EMBI):** Dollar-denominated sovereign bonds issued by a selection of emerging market countries.

**MSCI country indices**: Indices which include securities that are classified in that country according to the MSCI Global Investable Market Index Methodology, together with companies that are headquartered or listed in that country and carry out the majority of their operations in that country.

**MSCI EAFE (Europe, Australasia, Far East) Index:** A free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the U.S. and Canada.

**MSCI Emerging Markets Index:** A float-adjusted market capitalization index that consists of indices in 24 emerging economies.

**MSCI World Ex-US Index**: A broad global equity index that represents large and mid-cap equity performance across 23 developed market countries.

**Russell 1000® Growth Index:** Measures the performance of the broad growth segment of the U.S. equity universe. It includes those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth values.

**Russell 1000® Value Index**: Measures the performance of the broad value segment of U.S. equity value universe. It includes those Russell 1000 companies with lower price-to-book ratios and lower forecasted growth values.

**Russell 2000® Index:** measures the performance of the 2,000 smallest companies in the Russell 3000 index.

**Russell 3000® Index:** Measures the performance of the largest 3000 U.S. companies representing approximately 98% of the investable U.S. equity market.

The **S&P Canada Aggregate Bond Index** tracks the performance of Canadian dollar-denominated investment-grade debt publicly issued in the eurobond or Canadian domestic market.

**S&P/TSX Composite Index**: The benchmark Canadian index, representing roughly 70% of the total market capitalization on the Toronto Stock Exchange.

**The S&P 500® Index:** A free-float capitalization-weighted index published since 1957 of the prices of 500 large-cap common stocks actively traded in the United States. The stocks included in the S&P 500® are those of large publicly held companies that trade on either of the two largest American stock market exchanges: the New York Stock Exchange and the NASDAQ.

**S&P Goldman Sachs Commodities Index:** A composite index of commodity sector returns representing an unleveraged, long-only investment in commodity futures that is broadly diversified across the spectrum of commodities.

The **S&P Global Infrastructure Index**: Provides liquid and tradable exposure to 75 companies from around the world that represent the listed infrastructure universe. To create diversified exposure across the global listed infrastructure market, the index has balanced weights across three distinct infrastructure clusters: Utilities, Transportation, and Energy.

**S&P Global Natural Resources Index**: The index includes 90 of the largest publicly-traded companies in natural resources and commodities businesses that meet specific investability requirements, offering investors diversified and investable equity exposure across 3 primary commodity-related sectors: agribusiness, energy, and metals & mining.

# Index definitions continued

**Bloomberg Global High Yield Index**: An index which provides a broad-based measure of the global high-yield fixed income markets. The Global High-Yield Index represents the union of the U.S. High-Yield, Pan-European High-Yield, U.S. Emerging Markets High-Yield, CMBS High-Yield, and Pan-European Emerging Markets High-Yield Indices.

The **Bloomberg Canada Aggregate Bond Index** measures the Canadian investment grade fixed income market and is comprised of government, government-related and corporate securities.

**Bloomberg Global Aggregate Index CAD Hedged:** measures the performance of the global investment grade, fixed-rate bond markets. The benchmark includes government, government-related and corporate bonds, as well as asset-backed, mortgage-backed and commercial mortgage-backed securities from both developed and emerging markets issuers.

**Bloomberg U.S. Corporate Bond Index TR:** Measures the investment grade, fixed-rate, taxable corporate bond market. It includes USD denominated securities publicly issued by US and non-US industrial, utility and financial issuers.

**Bloomberg HY Muni TR:** An unmanaged index considered representative of noninvestment-grade bonds. Includes dollar-denominated, investment-grade, publicly issued securities with maturities of one to 10 years.

**Citigroup 1-3 Month T-Bill Index:** An unmanaged index that tracks short-term U.S. government debt instruments.

**FTSE Canada Real Return Bond Index** consists of semi-annual pay real return bonds denominated in Canadian dollars, with an effective term to maturity greater than one year.

**ICE BofA US 3M Treasury Bill TR:** measures the performance of a single issue of outstanding treasury bill which matures closest to, but not beyond, three months from the rebalancing date.

**ICE BofA Global High Yield Index Hedged (CAD):** Tracks the performance of USD, CAD, GBP and EUR denominated below investment grade corporate debt publicly issued in the major domestic or Eurobond markets.

# Economic Indicators Dashboard definitions - Canada

*LSEG DataStream source for all data.

## *Market Indicators*

**HOME PRICES –** Teranet - National Bank House Price: Composite 11, Index. The index is estimated by tracking the observed or registered home prices over time.

**MARKET VOLATILITY(VIX) –** CBOE VIX (Chicago Board Options Exchange Volatility Index) measures annualized implied volatility as conveyed by S&P 500 stock index option prices and is quoted in percentage points per annum. For instance, a VIX value of 15 represents an annualized implied volatility of 15% over the next 30 day period. The VIX measures implied volatility, which is a barometer of investor sentiment and market risk.

**10 YR. CANADATREASURY YIELD –** The yield on the 10 year Canadian Treasury note issued by the Canadian Government. It is important because it is seen as a benchmark for interest rate movements and borrowing costs in the economy.

**YIELD SPREAD –** The spread between 3 month Treasury bill yields and 10 year Treasury note yields measures the market outlook for future interest rates. A normal or upward-sloping yield curve, can imply that investors expect the economy to grow and inflation to eat into asset returns. They thus demand a higher yield for long-term Treasuries. An inverted yield curve has often been an indicator of coming recessions, but not always. For example, reduced inflation expectations could cause the yield curve to flatten.

## *Economic Indicators*

**CONSUMER SENTIMENT –** The Thomson Reuters/Ipsos Consumer Sentiment Index (CSI) is based on a monthly random sample of consumer citizens in chosen countries who answer 11 standard quantitative questions. The eleven tracked questions are then used to create a series of Indexes.

**ECONOMIC EXPANSION (GDP) –** GDP (Gross Domestic Product) measures the total market value of a nation's output of goods and services during a specific time period. It is usually measured on a quarterly basis. Calculating Real GDP growth allows economists to determine if production increased or decreased, regardless of changes in the purchasing power of the currency.

**INFLATION –** The Consumer Price Index (CPI) is a measure of the average change in prices over time of goods and services purchased by households. This indicator value represents the trailing year over year % change in the CPI index as of last month-end.

**UNEMPLOYMENT –** Number of unemployed persons expressed as a percentage of the labour force. The unemployment rate for a particular group (age, sex, marital status, etc.) is the number unemployed in that group expressed as a percentage of the labour force for that group.

**HOUSEHOLD DEBT TO GDP –** Canada, Household Sector, Debt to Gross Domestic Product

# Economic Indicators Dashboard definitions - US

***Market Indicators***

**HOME PRICES –** The S&P/Case-Shiller Home Price Index is a measurement of U.S. residential real estate prices, tracking changes in top 20 metropolitan regions. This indicator value represents the trailing year over year % change in the home prices index as of last month-end. Residential real estate represents a large portion of the U.S. economy, and the Home Price index helps us monitor the value of real estate.

**MARKET VOLATILITY(VIX) –** CBOE VIX (Chicago Board Options Exchange Volatility Index) measures annualized implied volatility as conveyed by S&P 500 stock index option prices and is quoted in percentage points per annum. For instance, a VIX value of 15 represents an annualized implied volatility of 15% over the next 30-day period. The VIX measures implied volatility, which is a barometer of investor sentiment and market risk.

**10 YR. U.S. TREASURY YIELD –** The yield on the 10-year U.S. Treasury note issued by the U.S. Government. It is important because it is seen as a benchmark for interest rate movements and borrowing costs in the economy.

**YIELD SPREAD –** The spread between 3-month Treasury bill yields and 10-year Treasury note yields measures the market outlook for future interest rates. A normal or upward-sloping yield curve, can imply that investors expect the economy to grow and inflation to eat into asset returns. They thus demand a higher yield for long-term Treasuries. An inverted yield curve has often been an indicator of coming recessions, but not always. For example, reduced inflation expectations could cause the yield curve to flatten.

***Economic Indicators***

**CONSUMER SENTIMENT –** The University of Michigan Survey of Consumer Sentiment Index is an economic indicator which measures the degree of optimism that consumers feel about the overall state of the economy and their personal financial situation.

**ECONOMIC EXPANSION (GDP) –** GDP (Gross Domestic Product) measures the total market value of a nation's output of goods and services during a specific time period. It is usually measured on a quarterly basis. Current GDP is based on the current prices of the period being measured. Nominal GDP growth refers to GDP growth in nominal prices (unadjusted for price changes). Real GDP growth refers to GDP growth adjusted for price changes. Calculating Real GDP growth allows economists to determine if production increased or decreased, regardless of changes in the purchasing power of the currency.

**INFLATION –** The Consumer Price Index (CPI) NSA (non-seasonally adjusted) measures changes in the price level of a market basket of consumer goods and services purchased by households. This indicator value represents the trailing year over year % change in the CPI index as of last month-end.

**UNEMPLOYMENT –** The Bureau of Labor Statistics measures employment and unemployment of all persons over the age of 15 using two different labor force surveys conducted by the United States Census Bureau (within the United States Department of Commerce) and the Bureau of Labor Statistics (within the United States Department of Labor) that gather employment statistics monthly. The data reported here is seasonally adjusted (SA) to account for seasonal gains in employment leading up to Christmas.

01-01-343-Q4 (01/24)