Asset Allocation

PRIVATE CLIENT SOLUTIONS

September 2021

Quarterly Outlook: Recovery Still in Progress, Despite Crosswinds

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In this publication, we discuss our outlook for the global economy and outline our tactical asset allocation recommendations for the next 9-12 months. We continue to believe that the global economy remains relatively early in the current economic cycle, and suggest investors maintain an overweight allocation to equities over bonds and cash. Volatility will probably pick up as yields push higher as the Federal Reserve (Fed) and Bank of Canada (BoC) normalize their monetary programs. That said, conditions remain highly accommodative and we suggest investors use periods of volatility to add to high-quality positions in companies with strong earnings growth potential and reasonable valuations – i.e., growth at a reasonable cost vs. growth at any cost. We suggest investors maintain an underweight allocation to fixed income and cash.

Key Takeaways:

- **Global growth still bifurcated, but hovering above trend**. The Organization for Economic Co-operation and Development (OECD) is forecasting global real GDP growth of ~5.7% year-over-year (YoY) in 2021, and 4.5% YoY in 2022. This growth is being led by strength across advanced economies, which we believe are tracking ahead of their emerging market peers on vaccination rates/reopening efforts. We maintain the view that the successful reopening of the global economy towards a more synchronized scenario versus today's bifurcated recovery will depend on effective vaccination programs globally and continued fiscal and monetary support.

- **Inflation is rising everywhere and likely to stick around longer than expected.** Inflation has continued to run "hot" and has even picked up momentum around the world. While some of the recent factors pushing inflation higher (e.g., supply chain disruptions) are likely to moderate as we move further into the cycle, we still see significant near-term risks to the upside for inflation expectations.

- **US & Canadian economic growth remains strong.** U.S. economic growth averaged a 6.4% annual growth rate over the first two quarters of 2021. While GDP growth is expected to moderate into 2023, it is still expected to remain above trend. The Canadian economic outlook remains robust despite near-term softness in the economy. We expect past gains in income, employment, and savings to fuel stronger growth in consumption and business investment next year.

- **Asset allocation recommendations – unchanged from Q3 update.** We continue to recommend an overweight allocation to equities with a preference for companies that are expected to benefit the most from the recovery process (i.e., cyclical, small-mid cap equities, value, etc.). Given relative valuations and the earnings outlook, we suggest an overweight allocation to the cyclically sensitive S&P/TSX vs. the tech-heavy S&P 500 index. Investors should also maintain an underweight allocation to fixed income and cash.

Please read domestic and foreign disclosure/risk information beginning on page 18

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The Global Recovery Still in Motion but Remains Uneven

At the start of the year, many were calling for a robust recovery, with some even suggesting a global synchronized growth environment. This was after many cheered the approval for emergency use of several vaccines (with +90% efficacy levels) by US and European regulators. While we agreed with the robust recovery narrative, we felt that a global synchronized recovery was too aggressive of a stance to maintain, given the difficulties and uncertainties associated with manufacturing, distributing, and administering the vaccines to the global population. The successful reopening of the global economy and the pace and strength of this recovery will largely remain contingent on the effectiveness of vaccination programs. This sounds simple enough, but what the last nine months have shown is that it is difficult to jab ~7.9 billion people with a vaccine, let alone do it twice.

While strong progress has been made over the past year, the prime beneficiaries have been mostly the advanced economies who have had preferential access to vaccines versus their developing/emerging market peers. The uneven distribution of vaccines has resulted in a bifurcated global economic recovery/reopening process with some regions heading back into partial/full-lockdowns, as new and more contagious virus strains have emerged (e.g., Delta). This has resulted in a slower return to pre-pandemic activity, with increasing tensions in global trade and supply chains.

Uneven Progress Led by Advanced Economies

The OECD is now forecasting global output to rise by 5.7% in 2021 and 4.5% in 2022, which under all accounts is quite robust and still up measurably from the ~3.4% year-over-year (YoY) contraction in 2020.

OECD Interim Economic Outlook Projections

Real GDP Growth (YoY % Chg.)							
	2020	2021	2022		2020	2021	2022
World	-3.4	5.7	4.5	G20	-3.1	6.1	4.8
Australia	-2.5	4.0	3.3	Argentina	-9.9	7.6	1.9
Canada	-5.3	5.4	4.1	Brazil	-4.4	5.2	2.3
Euro area	-6.5	5.3	4.6	China	2.3	8.5	5.8
Germany	-4.9	2.9	4.6	India*	-7.3	9.7	7.9
France	-8.0	6.3	4.0	Indonesia	-2.1	3.7	4.9
Italy	-8.9	5.9	4.1	Mexico	-8.3	6.3	3.4
Spain	-10.8	6.8	6.6	Russia	-2.5	2.7	3.4
Japan	-4.6	2.5	2.1	Saudi Arabia	-4.1	2.3	4.8
Korea	-0.9	4.0	2.9	South Africa	-7.0	4.6	2.5
United Kingdom	-9.8	6.7	5.2	Turkey	1.8	8.4	3.1
United States	-3.4	6.0	3.9				

Source: FactSet, OECD

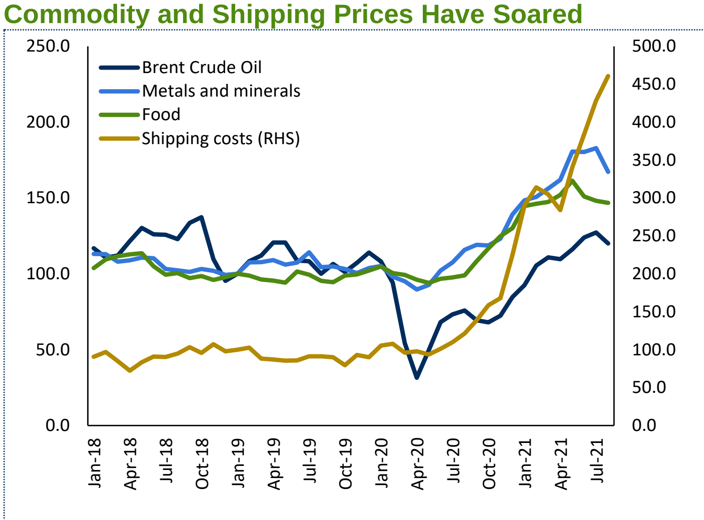
A strong rebound in Europe, additional fiscal support in the United States in 2022 and an expected drawdown in household savings should boost growth prospects across advanced economies and in some cases select developing and emerging economies. While global GDP has now surpassed its pre-pandemic level, output and employment gaps remain in many countries, particularly across emerging and developing economies where vaccination rates remain low. Several high-frequency activity indicators, which measure retail and recreation mobility, suggest global activity continued to show strength in recent months, specifically across Europe, India, and Latin America. However, mobility trends weakened in some Asia-Pacific countries, including Australia, where more stringent containment measures have been reintroduced because of surges in infections from the Delta variant/fourth wave of the virus. We believe the worst of the recent wave is mostly behind us and expect many countries across the Asia-Pacific region to experience an uptick in activity as restrictions ease while several abandon their zero-COVID programs and opt instead to push ahead with getting citizens vaccinated.

Despite all the near-term noise including softness in the global Purchasing Managers' Index® (PMI) indicators, PMIs remain above 50, and consistent with a continued global growth outlook. That said, we continue to maintain an overweight allocation to developed markets versus emerging/developing markets because of higher relative vaccination rates, a recovery in employment, and supportive monetary and fiscal programs.

Inflation is Expected to Moderate, but Risks to the Upside Remain

Inflation has continued to run "hot" and has even picked up momentum around the world. This has been driven by higher commodity prices, supply side constraints, stronger consumer demand as economies reopen, etc. Annual inflation has risen to over 5% in the United States and over 4% in Canada, but remains at relatively low rates in many other advanced economies, particularly in Europe and Asia. Part of the current rise in inflation reflects base effects, which are the result of price declines in the early days of the COVID-19 pandemic. Across many emerging-market economies, high energy and food prices have pushed up inflation, reflecting both strong price increases, and a relatively high share of commodities in consumer expenditures. Supply pressures, which are mostly transitory and typically observed in early periods of a recovery, should fade gradually while more sustainable drivers such as wage growth remain moderate. While several components in the recent above trend levels in inflation should moderate as we move further into the cycle, *we still see near-term risks to the upside for inflation expectations.*

Commodity and Shipping Prices Have Soared



Source: FactSet, OECD

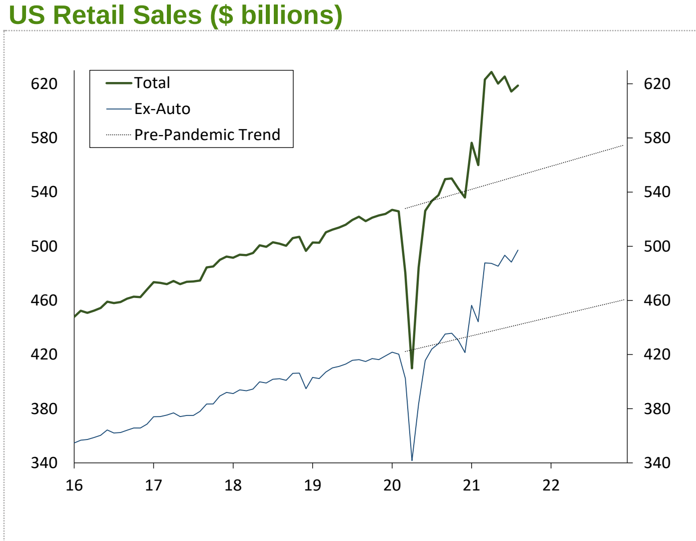
The US Economic Recovery Slowing from the Peaks

U.S. economic growth was strong in the first half of 2021. GDP growth averaged a 6.4% annual rate over the first two quarters, but that significantly understates the strengthening in domestic demand.

Consumer spending advanced at an 11.6% pace and business fixed investment rose at an 11.1% pace. GDP growth appears to have slowed in Q3/2021, reflecting the Delta surge and the impact of the semiconductor shortage on motor vehicle production (pushing some growth into 2023). The Federal Reserve's Beige Book, the summary of anecdotal reports of economic conditions from around the country, showed "economic growth downshifted slightly to a moderate pace" in late summer.

During the pandemic, consumer spending was shifted from services to goods. Retail sales have been trending somewhat lower, and reflect a drop in motor vehicle sales (lean retail inventories because of the semiconductor shortage). However, ex-autos, sales are running over 12% above the pre-pandemic trend. The recovery in consumer services has been temporarily restrained by the Delta surge, but many people may be reluctant to resume pre-pandemic behaviours (restaurants, air travel, etc.) until the pandemic is well behind us.

US Retail Sales ($ billions)



Source: Bureau of Census

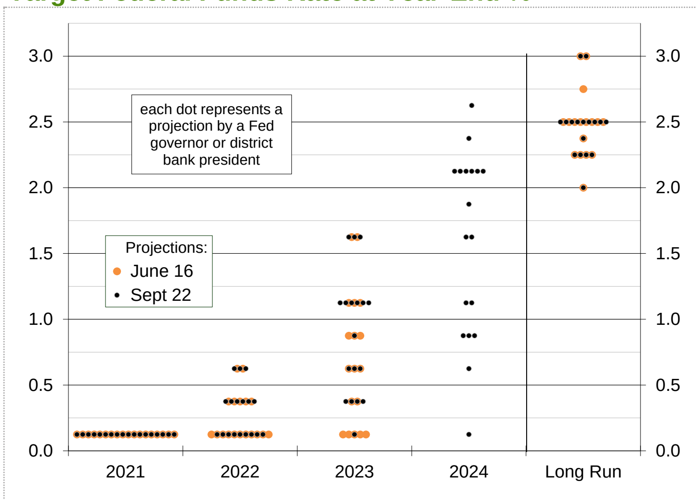
The strength of business investment has been fueled partly by increased borrowing, but also coincides with a sharp rise in corporate profits. There has been little evidence of over-investment or malinvestment, but the pace should moderate in the near term.

The Fed has been buying $120 billion in assets per month ($80 billion in long-term Treasuries, $40 billion in Mortgage-Backed Securities). In its September 22 policy statement, the Federal Open Market Committee (FOMC) signaled that "if progress continues broadly as expected, the Committee judges that a moderation in the pace of asset purchases may soon be warranted," setting up the November 2-3rd FOMC meeting as the likely announcement for tapering.

In his post-FOMC press conference, Chair Powell indicated that tapering would likely last until around the middle of next year (which works out to a $15 billion reduction in the pace of asset purchases each month).

The Fed expects to raise short-term interest rates after tapering is complete, but tapering and lift off are separate decisions. The dot plot, which shows the senior Fed officials' expectations of the appropriate year-end federal funds target rate, is "not a decision or a plan," according to Powell, and officials have not been debating when to hike. However, the dots have drifted higher. The 18 Fed officials are evenly split on whether a rate hike will be appropriate by the end of 2022.

Target Federal Funds Rate at Year-End %



Source: Federal Reserve

In its quarterly Summary of Economic Projections, Fed officials lowered their expectations for 2021 GDP growth (a median forecast of 5.9%, vs. June's 7.0%), but raised the outlook for 2022 GDP (to 3.8% from 3.3%). Officials raised their outlooks for PCE price inflation in 2021 (a median forecast of +4.2%, vs. June's 3.4%), but expect inflation to fall back to 2.2% in 2022 and 2023.

In August, prices that had risen sharply in previous months (vehicle rentals, used vehicles, car insurance, airfares) rolled back, consistent with the view that much of the increase in inflation will be transitory. However, production bottlenecks and materials shortages have continued. Supply chain problems (ocean freight, domestic rail, and trucking) should resolve themselves over time, but are likely to last into 2023. For the Fed, the key issue is whether higher inflation will lead to an increase in inflation expectations, which would become self-fulfilling. Inflation expectations remain well anchored so far.

GDP growth is expected to moderate into 2023, but to remain above trend during this period. Inflation is likely to have peaked. However, there is still an unusually high level of uncertainty in the outlook. Employment remains well below where it was before the pandemic and labour market participation has been slow to recover over the last year (likely reflecting fears of the virus, childcare issues, and a grey wave of early retirements). Even before the pandemic, many businesses, especially in manufacturing and construction, complained about a lack of skilled workers.

White-collar workers are more easily able to work from home, but blue-collar workers have to show up where they are needed. Pandemic-related shifts in demand have created skill and locational mismatches between jobs and potential workers. That will take time to be resolved and may pose a dilemma for Fed policymakers in 2022.

The Canadian Economic Outlook Still Robust

Recent macro releases have shown signs of slowing in the Canadian economy. This was most clear in the Q2 real GDP print, which showed the economy declined by -1.1% on a seasonally adjusted basis. The miss was primarily driven by a meaningful drop in residential investment (-12.4% Q/Q; +42.3% Y/Y), and exports (-15.0% Q/Q; +12.0% Y/Y). Housing, which has emerged as a key contributor to economic activity and capital stock since Q3/2020, declined due to lower home resale activity in the quarter, while exports were hurt by supply chain disruptions, in particular the semiconductor shortage, which had an adverse effect on the auto sector. The decline left GDP around 2% below pre-pandemic (Q4/2019) levels during a quarter many were expecting would mark a return to pre-pandemic economic activity. We expect some of this growth to be pushed forward to 2022. However, on a positive note, real disposable incomes rose again in Q2 (+6.1% Q/Q), while household spending remained flat during the period, leaving the savings rate at 14.2%. The savings rate in Q2 was the highest it has been since Q2/2020, and continues to support our view that sufficient pent-up demand remains on the sidelines across Canadian households.

We believe that, despite the near-term softness in the economy, growth will rebound as the fourth wave of the virus loses steam and supply chain/labour challenges ease. We expect past gains in income, employment, and savings should fuel stronger growth in consumption and business investment next year. In addition to the economic recovery, we expect firms will continue to rebuild their low inventory levels. As we look ahead, real GDP is expected to remain above trend, with Street consensus calling for real GDP growth of 5.2% in 2021 and 4.1% in 2022.

Canadian Economic Outlook,

National Accounts	Q4 '20	CY '20	Q1 '21	Q2 '21	Q3 '21E	Q4 '21E	CY '21E	CY '22E
Real GDP (%q/q, SAAR)	9.3	-5.2	5.5	-1.1	4.0	5.7	5.2	4.1
Inflation								
CPI (%q/q, SAAR)	3.2	0.7	3.0	4.2	-	-	3.0	2.4
Core CPI (%y/y)	1.3	1.2	1.4	2.6	2.7	2.6	2.2	2.5
Other Indicators								
Current Account (Bil. CAD)	-5.3	-40.1	1.8	3.6	-	-	14.9	16.0
Industrial Production (%q/q, SAAR)	10.4	-8.0	10.3	-1.4	-	-	5.7	4.1
Unemployment Rate (%)	8.8	9.5	8.4	8.0	7.2	6.7	7.5	5.9
Interest Rates								
Target Rate	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.50
10 Year Government Bond Yield	0.67	0.67	1.55	1.39	1.50	1.50	1.50	2.00

Source: FactSet

On the monetary policy front, financial conditions are still very accommodative and positive for equity markets. The Bank of Canada (BoC), following its latest policy meeting, held its target for the overnight rate at the effective lower bound of 0.25%. It also maintained its extraordinary forward guidance on the path for the overnight rate. This was reinforced and supplemented by the Bank's quantitative easing (QE) program, which is being maintained at a target pace of $2 billion per week. While the global economic recovery continued through the third quarter, supply chain disruptions constrained activity in some sectors, and rising COVID-19 cases in many regions presented a risk to the strength of the global recovery, thus validating the current monetary policy stance. With the Liberals winning another minority government, we expect more of the same with additional fiscal stimulus to the tune of 4% of GDP.

Taken together, we believe both monetary and fiscal conditions remain supportive of a robust recovery into 2022. CPI inflation has remained above 4%, boosted by base-year effects, gasoline prices, and pandemic-related supply bottlenecks. These factors are pushing up inflation, but their persistence and duration could cause upside risk to inflation over the near-term. Wage increases have been moderate to date, and medium-term inflation expectations remain well anchored. Core measures of inflation have risen, but by less than the CPI.

Remain Overweight Equities: Developed > Emerging

As in our last update, global equity indices have posted very strong returns in the 9 months ending September 2021, largely outperforming major fixed income indices. Equities indices across the Americas and Europe have outperformed markets in the Asia-Pacific region, primarily attributed to higher vaccination rates and stronger fiscal/monetary policy measures. China and Hong Kong are among the worst performing equity markets across the Asia-Pacific region and also when compared against major global indices on a year-to-date basis. We believe that there is still more pain ahead for these markets and advise investors to proceed with caution as there remains more uncertainty about the regulatory reform process in China, not to mention the global spillover effects from these reforms and the developing Evergrande situation.

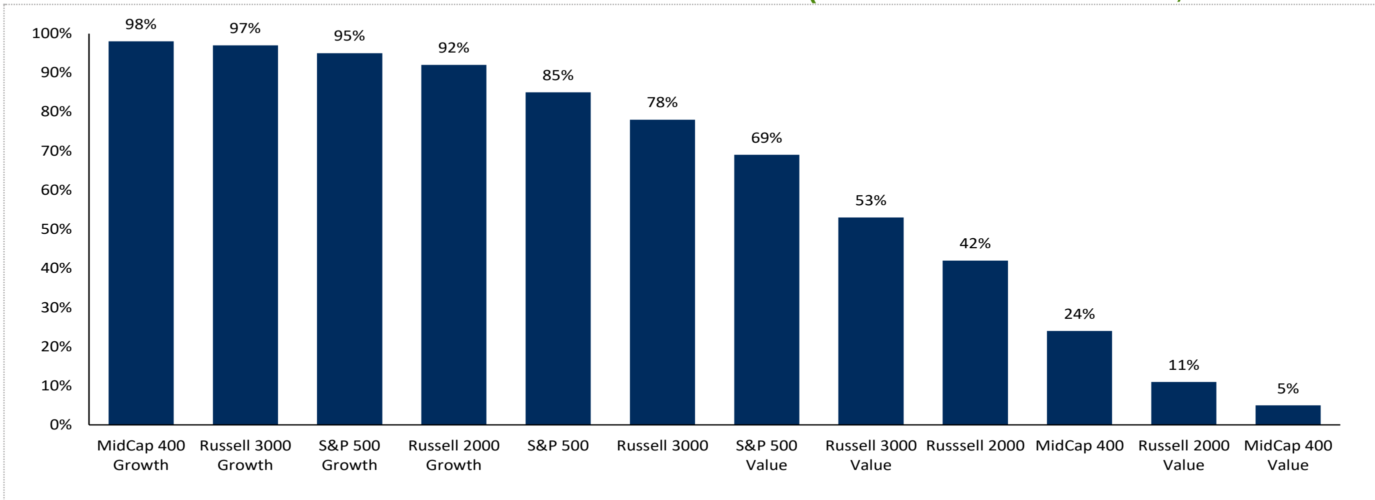
Strong vaccination efforts globally, in particularly across most developed economies, and the magnitude of the policy response in these regions have been the biggest drivers of corporate earnings. We continue to maintain an overweight allocation to equities versus bonds, with a greater emphasis on developed economic market indices versus emerging/developing equity markets.

S&P/TSX > S&P 500 Index < Russell 2000 Index/ Russell Midcap Index

Across North America, the tech-heavy S&P 500 index and the cyclically sensitive S&P/TSX index are performing neck-and-neck on a year to date basis. However, given our positive economic outlook that the cyclical rally, which stalled since March/April, will resume again, we suggest an overweight allocation to the S&P/TSX, market weight allocation to the US Large Caps (S&P 500), and an overweight allocation to US Small-Mid caps (Russell 2000 Index/ Russell Midcap Index). We believe strong relative vaccination rates, coupled with accommodative monetary and fiscal support and attractive relative equity market fundamentals (relative and absolute EPS growth/valuations) for the S&P/TSX versus the S&P 500 index remain supportive of this view.

From a style and market cap perspective, we continue to favour companies with strong earnings growth profiles and attractive valuations – i.e., growth at a reasonable cost vs growth at any cost. Across North America (e.g., Canada/US), we see the most attractive opportunities in the value/cyclically oriented sectors and also within small-mid-cap companies. If our call is right (that we are in the early to mid-phases of this new cycle), economically sensitive companies should perform well. We continue to recommend investors follow a quality bias in their security selection analysis. Across US equities, growth indices have never been more expensive, while smaller cap and value indices are below 20-year median P/E levels. If rates rise, this will catch the market wrong-footed as historically rising rates are pro-value and small cap. Should this backdrop change long-term, there is tremendous value in US value stocks and in small caps.

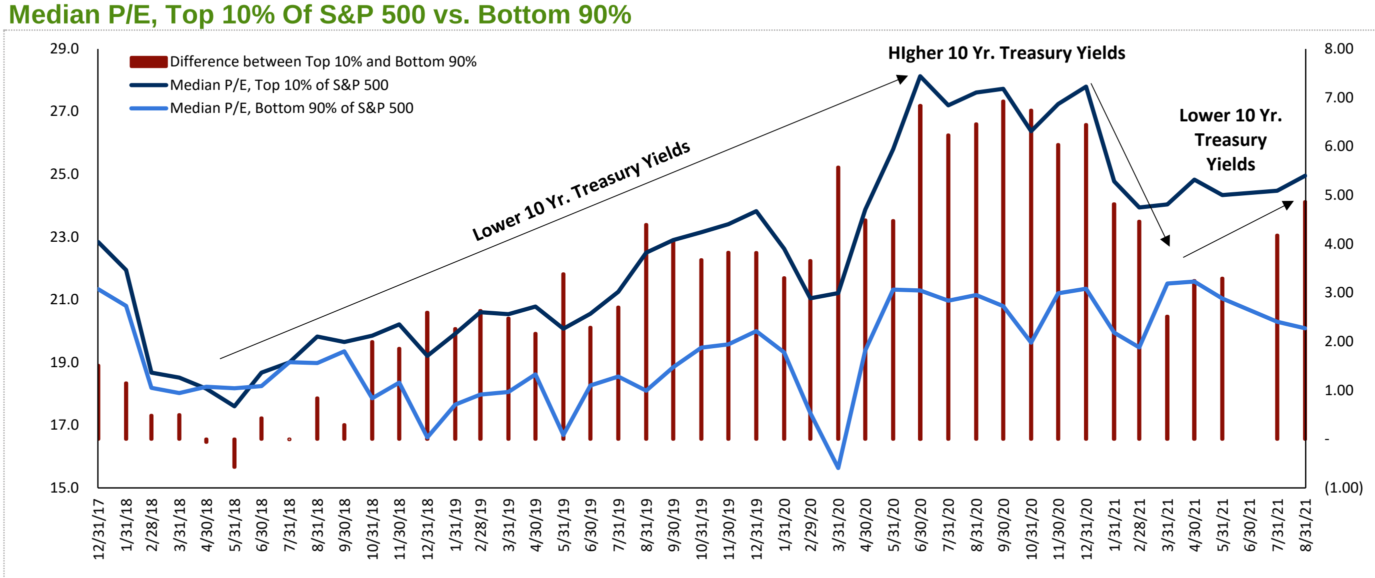
Valuation Percentile Based On '22 Est. In Each Index since 2000 (Growth Index Uses EV/Sales, P/E for All Else)



Source: FactSet

Since 2017, as 10-year Treasury yields have gone lower, the P/E premium for the highest market cap names has risen. Inversely, when yields have gone up, the P/E premium for size/liquidity has shrunk. We suspect this is related to international money flow and high frequency leverage, both of which increase as rates go lower, with preference to high liquidity names. This scenario has largely played out since March/April 2021 - this is "very defensive" positioning for the equity market. Note that early in an economic cycle, as 10-year Treasury yields recover (rise), smaller caps should do better as investment dollars in large, liquid, great companies, flow back into a broader set of equities.

Median P/E, Top 10% Of S&P 500 vs. Bottom 90%

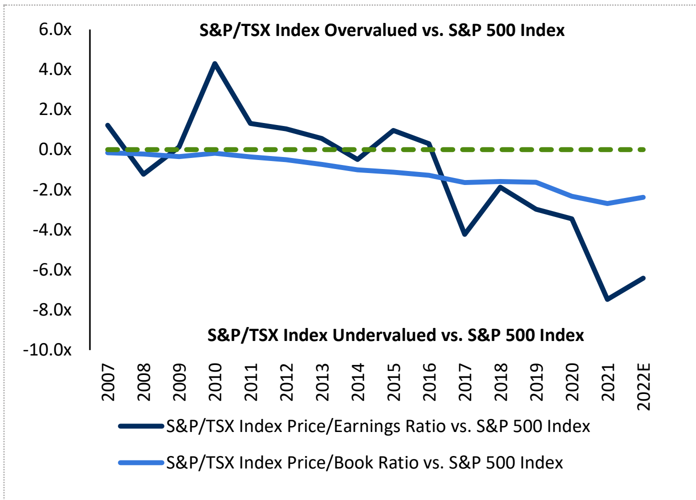


Source: FactSet

The pace of revisions and the absolute levels of EPS growth for 2021 have been far stronger for the S&P/TSX versus the S&P 500 index. As of September 27th, 2021, the Street is calling for 2021 EPS growth for the S&P/TSX Index of ~82% and ~6% for 2022. Given how strong 2021 numbers have been, including the pace of upward revisions by the analyst community (+25% since Dec 2020), we expect there is still room for additional revisions to the 2021 number. As for 2022 numbers, we expect these to move higher as investors look past 2021.

Supply chain bottlenecks should moderate heading into 2022 and empty shelves should be restocked, while pricing power is maintained. Consumer spending should also improve as the unemployment rate drops further, accompanied by higher wages and the release of some savings still sitting on the sidelines. Continued progress on vaccinations gives us further confidence in our positive outlook for Canada/Canadian equities. We also see a stronger relative upside for the S&P/TSX index from here. The S&P/TSX index still continues to trade at a wide spread versus the S&P 500 index, despite posting solid EPS growth in 2021. Street consensus estimates are up by 25% from the beginning of year - the sharpest revision for the first 8 months of the year in two decades.

S&P/TSX & S&P 500 Relative Valuation on P/E & P/B



Source: FactSet

Outside of North America, there are good opportunities across the advanced/developed markets, including parts of Europe and the UK. While we are seeing interesting opportunities across several emerging markets, which remain captivating from a valuation standpoint, we believe the opportunities are bifurcated and we suggest investors remain very selective in adding exposure across these regions.

Underweight Fixed Income – Stick to Low Duration

Inflationary pressures are rising and while some components are transitory, we believe the risks are skewed to the upside rather than the downside over the near-term. This is despite long-yields falling from their highs over the past several months on uncertainties - infrastructure bills, debt ceiling, QE tapering timing, virus spread, EPS risk, at least three distinct issues in China, while Q3 GDP estimates come down due to supply constraints, etc. - leading to a global risk-off sentiment with investors piling into US treasuries.

We continue to maintain the view that yields are likely to rise from current levels as we move forward into 2022, especially as supply chain disruptions are likely to lead to elevated inflationary pressure and are unlikely to resolve themselves over the near team. This is in addition to central banks remaining committed to following a data-dependent playbook before they taper or raise rates higher. However, over the longer-term, we expect yields will find their way back lower after an initial step-up, especially as many of the transitory inflationary drivers, such as supply chain and labour issues, which are typical of the early/midpoint inning of an economic cycle. It's also important to note that the financial world contains nearly $17 trillion in negative yielding debt, with global central banks expanding their balance sheets (the Fed to >$8.2 trillion; BoC to > $493.4 billion) and extreme interest rate diversity amongst policies.

World Bond Markets Yields

	2-Year	5-Year	10-Year	30-Year
United States	0.307	1.012	1.529	2.069
Canada	0.519	1.095	1.491	1.955
France	-0.687	-0.315	0.158	0.916
Germany	-0.680	-0.541	-0.195	0.266
Greece	-0.334	0.096	0.856	1.665
Ireland	-0.637	-0.408	0.188	0.888
Italy	-0.450	0.083	0.853	1.797
Japan	-0.111	-0.080	0.085	0.695
Netherlands	-0.715	-0.517	-0.071	0.350
Spain	-0.580	-0.288	0.447	1.310
Sweden	-0.269	0.046	0.384	
United Kingdom	0.411	0.629	0.998	1.332

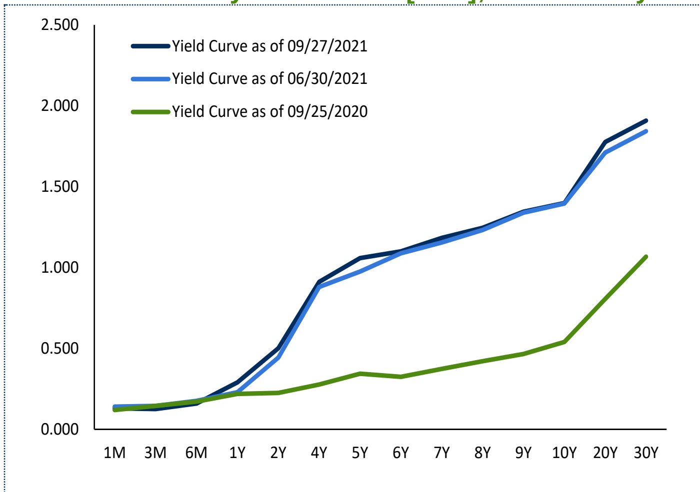
Source: FactSet; as of September 28, 2021

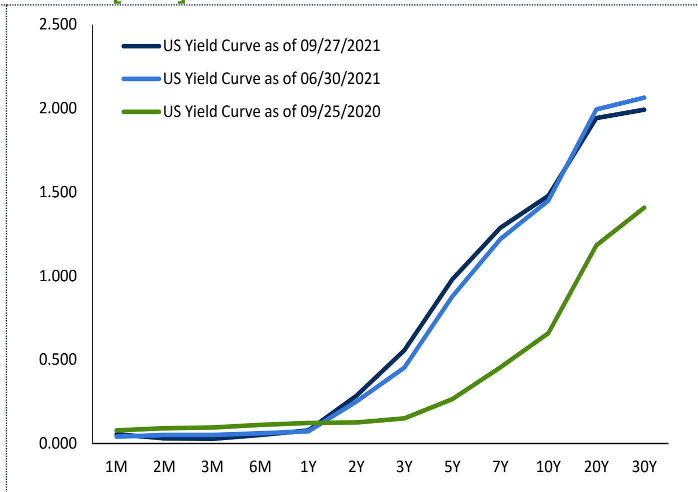
The Fed/BoC and many other central banks have historically remained focused on controlling primarily the short-end portion of the yield curve; however, since the 2007-2008 Financial Crisis, that role has since expanded across the curve and has resulted in significant downward pressures on yields across the curve. As a result, 10-year yields do not reflect what is going on in the economy as they once did, but may be more indicative of central bank operations.

Both the Fed and the BoC appear to be in control but under arguably tremendous pressure to keep interest rates low as government debt climbs. The Fed has actually been very transparent about their intentions and, in the latest FOMC release, showed that despite economic progress, they are looking for substantial improvements before even talking about tapering. This means that they will continue their accommodative policy until further notice. This is evidenced by their continued monthly $120 billion in open market purchases. While there has been a lot of "taper" talk, it has not happened yet and when it does, we expect it to be very gradual and well televised to avoid a "Taper Tantrum" like the scenario in 2013. The story is very similar to Canada. The BoC kept its overnight rates unchanged at the effective lower bound of 0.25% following its latest policy meet. In addition, the BoC has maintained its extraordinary forward guidance on the path for the overnight rate. This is reinforced and supplemented by the Bank's quantitative easing (QE) program, which has also maintained a target pace of $2 billion per week.

For fixed income investors, allocating in this low-yield environment, given the directional uncertainties in yields (which move inversely to bond prices) and the low relative risk/reward attributes of the asset class, it will continue to be a challenging proposition for the foreseeable future. While we suggest investors maintain an underweight allocation to fixed income relative to equities; within their fixed income buckets, we suggest maintaining an overweight allocation to investment grade bonds over government securities in Canada and the US. Given the slope of the yield curves in the US and Canada, investors are not being compensated to take on interest rate risk. The yield curve is very flat on the 10+ years out. The yield pickup for adding duration risk is insignificant as investors extend further out on the curve. The very short end of the curve is completely flat, idling near a zero interest rate, a direct result of central bank policy measures, which have pegged short-term rates at near zero. In Canada, we suggest investors focus on bonds with a duration of between 1.5-2 years and 3-7 years in the US.

Canadian Treasury Yield Curve [LHS]; US Treasury Yield Curve [RHS]





Source: FactSet

That said, holding large amounts of cash, trying to out-wait the market hoping for higher interest rates, might take much longer than expected. After the Great Recession, short money market rates settled near 0% for around seven years. Waiting for interest rates to rise can take a very long time while inflicting a huge loss of opportunity. In addition, investors are also not being compensated to take on credit risk. Note the U.S. corporate high yield spread versus the 10-year Treasury rate. Since 2000, 10-year high yield spreads have averaged 513bp over Treasuries. During that period, the tightest spread over Treasuries is the ~240bp where we are today. High-yield bonds are not offering higher yields (higher reward) historically typical of this asset class.

FX – A Short Trip Around the World

USD

The broader USD came under some pressure following the latest Federal Reserve (Fed) decision. While a tapering announcement before year-end is essentially locked in, the market had been gradually pricing it in. Fed Chair Powell noted that while a decision on tapering is not indicative of a liftoff in interest rates, the tapering process could conclude around mid-2022, implying a much speedier reduction in stimulus than many expect. However, a string of disappointing payroll data in the coming months may delay the tapering timeline. We expect more range-bound trading ahead while a return of the reflation narrative, albeit in a modestly lower fashion, may put some added pressure on the USD. Global growth expectations appear to be cooling a bit while inflation remains elevated. Many central banks continue to view the inflation shock as "transitory" due to supply bottlenecks and base effects while reiterating their goal of supporting economic growth and the recovery. This should provide an added tailwind for risk assets and further weigh on the USD. Global financial conditions also remain well supported for growth, considering a central bank normalization backdrop, with rate hikes still years away for many. Considering these global macro drivers, the DXY US Dollar Index has been increasingly tracking broader risk sentiment. We are not ruling out short-term USD strength as factors like the ongoing situation with China's Evergrande and the Fed's tapering on the horizon leading to a spike in US yields continue to affect broader risk sentiment, which may lead to the greenback catching a bid.

Positioning Recommendation: While USD/CAD has been finding strong support at its 50- and 200-day MA's for most of September, we expect the pair to eventually be within the 1.24-1.26 range by year-end as a rebound in crude oil prices and US/CDN yield spreads in CAD's favour keep USD strength modestly in check.

CAD

With the Bank of Canada clearly ahead of the Fed regarding tapering, this may suggest more room for CAD strength in the months to come. Canada also recorded its first consecutive current account surpluses in Q1 and Q2 of this year, after running continuous deficits dating back to 2008, which should bode well for CAD as a form of a safe-haven currency. On a related note, Canada's net international investment position (NIIP), which is the difference between the value of a country's external assets and liabilities, is also quite robust at CAD$1.5trn or 61% of GDP as of Q2/2021. This puts Canada in a "net creditor" status, which should provide CAD with some additional armor in moments of broader risk-off market episodes (i.e. limited upside potential in USD/CAD).

Positioning Recommendation: Taken together with its rising correlation to oil prices, CAD should find itself in a more favourable position against the EUR, GBP, and AUD, etc.

GBP

As one of the top-performing G10 currencies, YTD, right behind the CAD, the GBP has been on a stellar run. The GBP caught a surprising bid following the latest Bank of England (BoE) rate decision. While its main policy rate and pace of asset purchases were both left unchanged at 0.10% and £875bln, respectively, the decision was far more hawkish than what the market was expecting. Two members of the Monetary Policy Committee (MPC) voted for an early end to the BoE's program of government bond purchases, as the case for policy tightening appears to be gaining some momentum. The central bank revised expectations downward for Q3/2021 GDP growth to 2.1% (from 2.9%) due to supply constraints on output and warned that inflation is expected to rise above 4% by year end and may remain above this level well into Q2/2022. The key takeaway from the BoE rate decision was that, according to the MPC, the case for higher interest rates "appeared to have strengthened." This led to the market bringing forward its rate-hike expectations to February 2022. Despite some of the positive GBP developments stemming from the BoE's seemingly hawkish rhetoric, it will undoubtedly be faced with a tricky balancing act to convince the market that it can rein in surging inflation expectations while simultaneously dealing with a slower economic growth outlook.

Positioning Recommendation: After failing to clear the 1.76 handle to the upside on numerous occasions, GBP/CAD has been on a downward trajectory. We expect CAD to outperform the GBP given their respective macro outlooks and are thus looking at 1.70-1.72 as the next key range of support to the downside.

EUR

As far as G10 FX performance goes, the EUR has been mildly disappointing. It is down +4% against the USD YTD at the time of writing and is expected to remain under pressure going forward. The latest German IFO sentiment numbers came in more or less mixed versus market expectations, with the Business Climate index, a leading indicator for economic activity over the next six months, slipping to a five-month low. Shortages of semiconductor chips and other raw materials continue to negatively impact Germany's manufacturing sector with supply bottlenecks, leaving businesses struggling to meet demand as the global economy continues to rebound. Together with disappointing PMI data, this may suggest further weakness in the EUR as the ECB maintains an easing stance over the longer term as it grapples with supporting a fragile economic recovery.

Positioning Recommendation: EUR/CAD has similarly been pinned within the 1.48-1.50 for most of Q3 and is currently trading around the 1.48 handle at the time of writing. Expecting CAD to outperform the EUR in the near term, we expect the pair to eventually trade around the 1.46 level by year-end.

AUD

The AUD is widely regarded as a barometer for broader risk sentiment and a proxy for Chinese economic growth because of their close trading relationship. Iron ore, Australia's primary commodity export, has been under pressure as the Chinese government is determined to cap its steel production (and thus reduce its demand for iron ore) in order to meet its emissions-reduction goals. In addition, the ongoing situation with China's Evergrande Group, which reportedly consumes a third of the country's steel production, is further straining the iron ore market and the AUD. However, continued liquidity injections from the People's Bank of China to ease some of the market stress, and their determination to spur domestic economic growth may be favourable for the AUD despite ongoing back-and-forth friction between China and Australia.

Positioning Recommendation: AUD/CAD has been on a downtrend for most of the year, almost hitting par (1.00) briefly in February only to see the pair back within the 0.92-0.93 range at the time of writing. Given the AUD's outlook, we expect the CAD will continue outperforming on the cross and expect the pair to eventually trade around the 0.90 handle by year-end.

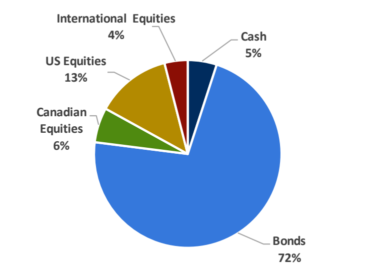
Tactical Asset Allocation Recommendations

	- Neutral +	Comments
Equity		We remain overweight equities as we continue to see strong relative risk/reward characteristics, which we believe is supported by strong consumer and corporate fundamentals and a still very accommodative policy environment.
US Large Cap		The US Large Cap space represents some of the highest quality businesses in the world, with strong competitive attributes, high levels of profitability, and strong enduring growth profiles. However, due to elevated valuations we are seeing more compelling tactical opportunities elsewhere.
US Small-Mid Cap		We see strong growth, sentiment and relative valuations across the US Small-Mid Cap space. In particular, we are seeing compelling opportunities within US Small-Mid Cap Value.
Canadian Large Cap		We see good value across the Canadian market including in Large Cap equities. In particular, we have a favourable view on quality cyclical equities.
Canadian Small-Mid Cap		We see good value across the Canadian market including in Small-Mid Cap equities. In particular, we have a favourable view on quality cyclical equities.
Developed		We see good opportunities across several developed economies outside of Canada and the US markets which are still early in the reopening efforts, including across Europe, UK, etc. We also see attractive relative opportunities across Asia (e.g., Korea, Japan, etc.).
Emerging		Strong global growth should be supportive for EM equities, particularly commodity exporters; however the economic environment and growth outlook is more bifurcated across emerging market equities than across developed world equities. That said, we believe investors can be tactical in adding to <u>select</u> emerging markets across Asia, where we are seeing attractive valuations.
Fixed Income		With valuations and risk reward attributes not particularly compelling, we remain underweight Fixed Income with the Fed/BoC starting to taper their bond buying programs. Therefore, we expect more volatility and modestly higher yields in the future.
US Government		We suggest an underweight allocation to government bonds due to the weaker risk/return characteristics across the curve.
US Corporate		Investment grade corporate bonds continue to offer better risk/reward characteristics. However, investors should consider continuing to hold shorter duration bonds as the Federal Reserve/Bank of Canada isn't likely to move rates for two more years and we continue to see upside potential in longer-term rates. We suggest investors maintain exposure to bonds with a duration profile between 3-7 years.
Canadian Government		We suggest an underweight allocation to government bonds due to the weaker risk/return characteristics across the curve.
Canadian Corporate		Investment grade corporate bonds continue to offer better risk/reward characteristics. However, investors should consider continuing to hold shorter duration bonds as the Federal Reserve/Bank of Canada isn't likely to move rates for two more years and we continue to see upside potential in longer-term rates. We suggest investors maintain exposure to bonds with a duration profile between 1.5-3 years.
Currency (USD/CAD)		While USD/CAD has been finding strong support at its 50- and 200-day MA's for most of September, we anticipate the pair to eventually find itself within the 1.24-1.25 range by year-end as a rebound in crude oil prices and US/CDN yield spreads in CAD's favor keeps USD strength modestly in check.
Cash		We are underweight cash as an asset class as we see more attractive risk/reward opportunities in other asset classes, including equities and corporate investment grade bonds which offer the potential for higher real returns.

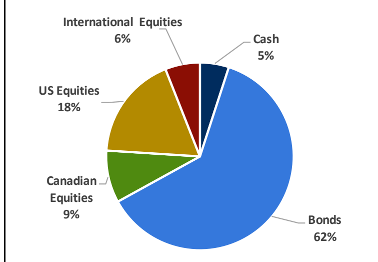
Investor Profiles and Asset Class Weightings

Recommended Asset Allocation

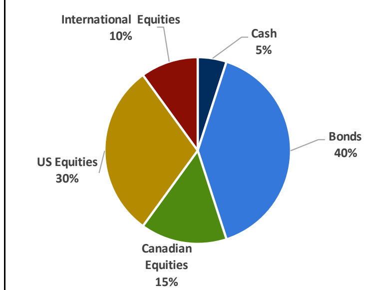
Capital Preservation



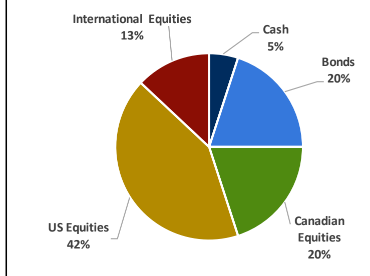
Conservative



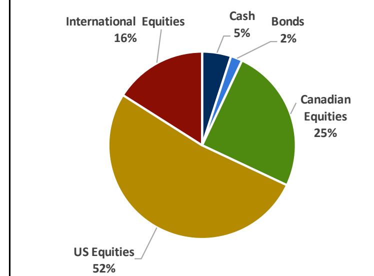
Moderate



Growth



Aggressive Growth



Asset Allocation Mix	Capital Preservation	Conservative	Moderate	Growth	Aggressive Growth
Cash	5%	5%	5%	5%	5%
Bonds	72%	62%	40%	20%	2%
Canadian Equities	6%	9%	15%	20%	25%
US Equities	13%	18%	30%	42%	52%
International Equities	4%	6%	10%	13%	16%
Total	**100%**	**100%**	**100%**	**100%**	**100%**

Tactical Asset Mix (Bonds include cash)	Capital Preservation	Conservative	Moderate	Growth	Aggressive Growth
Bonds	77%	67%	45%	25%	7%
Equities	23%	33%	55%	75%	93%
Total	**100%**	**100%**	**100%**	**100%**	**100%**

Strategic Asset Mix (Bonds include cash)	Capital Preservation	Conservative	Moderate	Growth	Aggressive Growth
Bonds	80%	70%	50%	30%	10%
Equities	20%	30%	50%	70%	90%
Total	**100%**	**100%**	**100%**	**100%**	**100%**

Asset Class Ranges	Capital Preservation	Conservative	Moderate	Growth	Aggressive Growth
Cash	0% - 20%	0% - 20%	0% - 20%	0% - 20%	0% - 20%
Bonds	60% - 100%	50% - 90%	20% - 70%	10% - 50%	0% - 30%
Equities	0% - 30%	10% - 50%	30% - 75%	50% - 90%	70% - 100%

Description – Capital Preservation

May be appropriate for investors with long-term income distribution needs who are sensitive to short-term losses. The equity portion of this portfolio generates capital appreciation, which is appropriate for investors who are sensitive to the effects of market fluctuation but need to sustain purchasing power. This portfolio, which invests primarily in fixed-income securities, seeks to keep investors ahead of the effects of inflation with an eye toward maintaining principal stability.

Description – Conservative

May be appropriate for investors with intermediate-term time horizons who are sensitive to short-term losses yet want to participate in the long-term growth of financial markets. The portfolio, which fixed-income securities tend to make up the largest proportion of holdings, seeks to keep investors well ahead of the effects of inflation with an eye toward maintaining principal stability. The portfolio has characteristics that may deliver returns lower than that of the broader market with lower levels of risk and volatility.

Description – Moderate

May be appropriate for investors seeking a balance between capital preservation and capital growth. This portfolio, which is a split between fixed-income securities and equities, seeks to keep investors well ahead of the effects of inflation with an eye toward maintaining principal stability. With roughly half of the portfolio invested in a diversified mix of Canadian and international equities, investors should be comfortable with moderate fluctuations in the portfolios.

Description – Growth

May be appropriate for investors with long-term time horizons who are not sensitive to short-term losses and want to participate in the long-term growth of the financial markets. This portfolio, which has a higher weighting in equities, seeks to keep investors well ahead of the effects of inflation with principal stability as a secondary consideration.

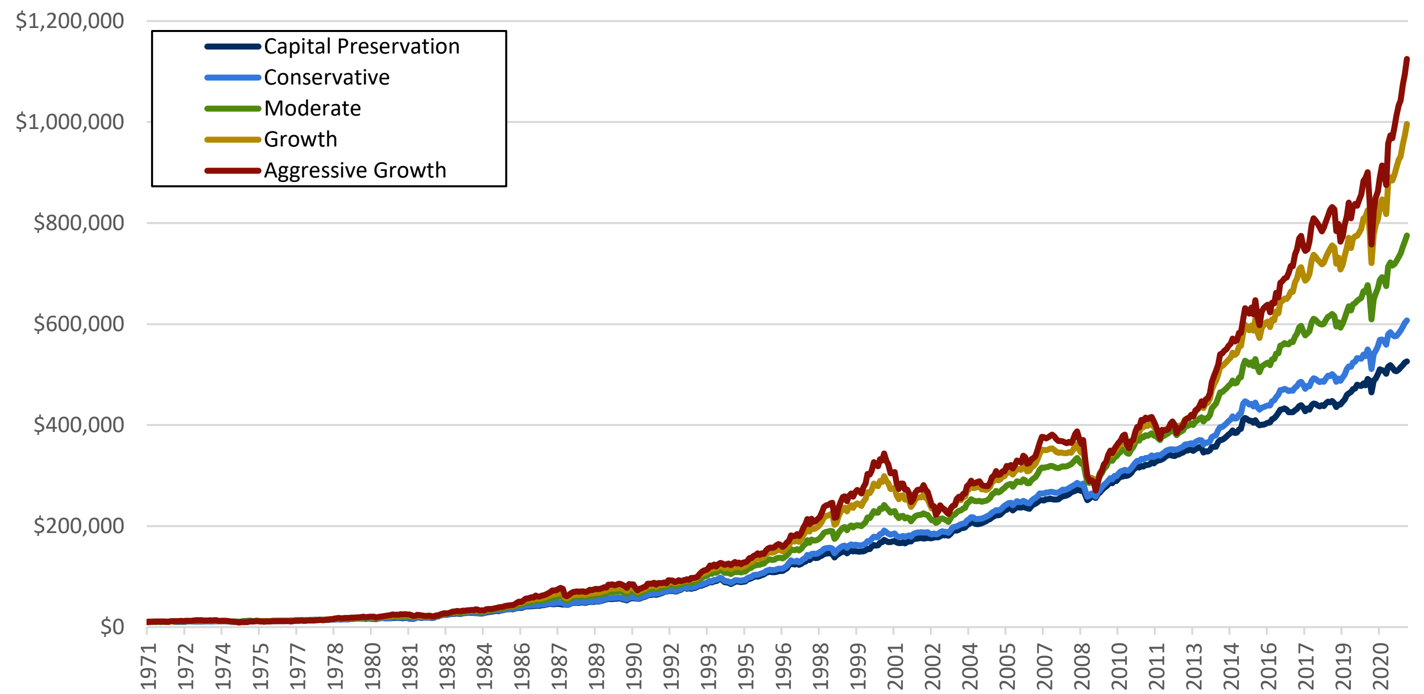
Description – Aggressive Growth

May be appropriate for investors with long-term time horizons who are not sensitive to short-term losses and want to participate in the long-term growth of the financial markets. This portfolio, which is primarily invested in equities, seeks to keep investors well ahead of the effects of inflation with little regard for maintaining principal stability. The portfolio may deliver returns comparable to those of the broader equity market with similar levels of risk and volatility.

Client Profile Statistics

	Capital Preservation	Conservative	Moderate	Growth	Aggressive Growth
Total Return (annualized)	8.1%	8.4%	9.0%	9.5%	9.8%
Avg Monthly Returns	0.67%	0.70%	0.74%	0.79%	0.83%
Avg Rolling 12 Month Returns	8.4%	8.7%	9.2%	9.9%	10.4%
Annualized Std Dev (36 months)	5.6%	6.4%	8.1%	10.3%	12.7%
Sharpe Ratio	1.5	1.3	1.1	0.9	0.8
Best 12 month Rolling Return	46.5%	48.0%	46.1%	46.3%	47.7%
Worst 12 month Rolling Return	-7.7%	-11.3%	-18.9%	-26.1%	-32.6%

Value of $10,000 Invested



Source: FactSet, Raymond James Ltd. As of August 31, 2021, Inception January 1971.

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

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