RAYMOND JAMES®

PRIVATE CLIENT SOLUTIONS

ASSET ALLOCATION QUARTERLY

- **Recession Odds Remain Volatile**
- **Inflation to Fall from the Peaks**
- **Fed and Market on Two Separate Pages**
- **Bank Panic and Geopolitics Drive Macro Volatility**
- **Many Opportunities across Global Equities and Fixed Income Markets Despite Uncertainty**

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Quarterly Outlook: Playing the Waiting Game

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The waiting game accurately depicts the current investment backdrop, as many investors are choosing to defer their investment decisions and await additional information before diving in. The first quarter of 2023 was marked by rapidly changing headlines on several topics including cooling inflation, peaking interest rates and unexpected events in the banking sector, all signalling a late cycle economy. Conventional wisdom suggests the next recession will begin sometime in 2023, 2024 or even 2025. But pinpointing the start of the recession is somewhat challenging, like calling market tops and bottoms. Nonetheless, patient, prudent investors who can hold onto their investments for a longer term are often rewarded with higher returns. We see many opportunities to invest in today, with more expected to surface in the upcoming months.

Key Takeaways:

- **Fed and Market on Two Separate Pages.** While the Fed remains squarely focused on inflationary pressures, the market is concentrated on the significant contraction in money supply and tighter financial conditions, which will weigh on economic output in the coming months. The market typically gets it right, so we anticipate the Fed will pause, if not pivot, later this year. The timing and type of recession that will be experienced remain a wild card. We believe employment will be critical in determining if we experience a hard or soft landing or perhaps rolling recessions occurring across the economy at different times.
- **Equities – Pulling Forward Weaker Growth.** We find ourselves squarely in a late cycle economy right now, which typically means lower inflation, lower rates and lower earnings expectations. Against this backdrop, we still expect a reasonably flattish and volatile S&P 500, and although we had expected a better year for small- and mid-cap equities, we believe this will be reliant on this bank event creating a hard landing/typical recession. Similarly, we had expected very little difference in value and growth in 2023, but the harder the recession, the more that growth should outperform. We maintain a slight overweight to Canadian equities (e.g., S&P/TSX Composite and S&P/TSX 60) relative to U.S. large-cap equities. For our S&P 500 and S&P/TSX Composite sector recommendations, please click here.
- **Fixed Income – Adding Duration Proves to Be a Winning Scenario.** We continue to believe that yields – especially those of longer maturities – have peaked, so we reiterate our call to add duration, or extend maturity, to your fixed income portfolio. We recommend reducing floating rate exposure in favour of fixed interest rates over your investment horizon. We continue to like U.S. mortgage-backed securities for their cash flow generating capabilities, as well as U.S. callable agency securities (especially at prices below par), and U.S. and Canadian government securities. In relative terms, U.S. yields are higher across the board than Canadian ones, so we prefer holding U.S. treasury over Canadian sovereign bonds (FX not considered). The growing risks of a recession provide less confidence regarding adding to credit, so we continue to suggest that corporate bond holdings be reduced to underweight in total alongside an increase in quality and defensive positions. With inflation and inflation expectations on the decline, we do not suggest holding inflation-protected securities of either countries.

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Asset Allocation Recommendations

Strategic Asset Allocation Recommendations

CURRENT POSITIONING	Ultra Conservative	Conservative	Moderate	Balanced	Balanced Growth	Growth
Equity	**10%**	**30%**	**50%**	**60%**	**70%**	**90%**
Canadian Equities	4.0%	10.0%	20.0%	25.0%	25.0%	30.0%
US Equities	4.0%	10.0%	15.0%	17.5%	20.0%	30.0%
Developed Markets Equities (ex NA)	2.0%	10.0%	15.0%	17.5%	25.0%	30.0%
Fixed Income	**88%**	**68%**	**48%**	**38%**	**28%**	**8%**
Canadian Aggregate Fixed Income	60.0%	45.0%	30.0%	38.0%	20.0%	8.0%
Canadian Short-term Fixed Income	28.0%	23.0%	18.0%	-	8.0%	-
Cash	**2%**	**2%**	**2%**	**2%**	**2%**	**2%**

ASSET CLASS DEFINITIONS

Canadian Equities: S&P/TSX Composite: the benchmark Canadian index, representing roughly 70% of the total market capitalization on the Toronto Stock Exchange with about 250 companies included in it. The Toronto Stock Exchange is made up of over 1,500 companies.

US Equities: S&P 500: is widely regarded as the best single gauge of large-cap U.S. equities. The index includes 500 leading companies and covers approximately 80% of available market capitalization.

Developed Markets Equities (ex NA): MSCI EAFE: is designed to represent the performance of large and mid-cap securities across 21 developed markets, including countries in Europe, Australasia and the Far East, excluding the U.S. and Canada. The Index is available for a number of regions, market segments/sizes and covers approximately 85% of the free float-adjusted market capitalization in each of the 21 countries.

Canadian Aggregate Fixed Income: FTSE Canada Universe Bond: tracks the performance of investment-grade (BBB or better), government and corporate bonds in Canada.

Canadian Short-term Fixed Income: FTSE Canada Short Term Bond: intended to represent the Canadian short-term bond market. It contains bonds with remaining effective terms greater than or equal to one year and less than or equal to five years.

Cash: FTSE 91 Day T-Bill: tracks the performance of 3-Month Government of Canada Treasury Bill. The index is designed to reflect the performance of a portfolio that only owns 3-Month Government of Canada Treasury Bill, the current on the run T-Bill for the relevant term, switching into the new T-Bill at each auction.

Market Commentary

Global Economic Outlook

The global economy continued to inch towards perhaps the best-telegraphed recessions in the history of recessions. Conventional wisdom suggests the next recession will begin sometime in 2023, 2024 or even 2025. But pinpointing the start of the recession is somewhat challenging, like calling market tops and bottoms. While we are in agreement that a recession is likely inevitable for several advanced economies, employment and consumer data appears to be delaying the slowdown.

We can confidently say that the coordinated effort from the U.S. Federal Reserve (Fed) and its global central bank peers, including the Bank of Canada (BoC), to remove monetary stimulus at a record pace is having the desired effect on fighting inflation. In the coming quarters, we anticipate inflationary pressures will continue to ease towards target, thus providing central banks with some wiggle room to turn their attention to dealing with the economic slowdown.

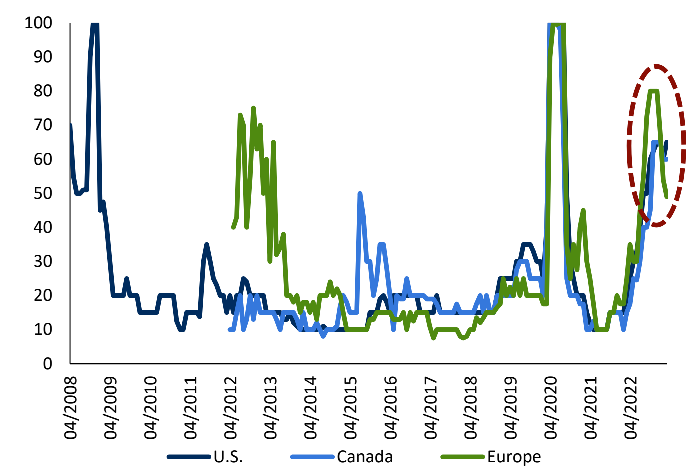
However, the risk is that central banks continue to tighten into a slowdown and fail to account for future-looking indicators that show inflation is yesterday's problem. The Fed continues to talk tough on the rate front even though the economy has yet to fully digest last year's policy tightening. Fed officials appear hell-bent on avoiding a repeat of the runaway inflation and double-dip episode of the 1970s/80s. In contrast, the market is telling the Fed to ease off the accelerator, pricing in a rate-cutting cycle later this year.

The rationale for remaining hawkish likely comes down to central banks' ability to manage the business cycles rather than dealing with the harmful effects of persistently high inflation. The total impact of the 2022 tightening cycle in advanced economies has yet to be fully realized, and, at the same time, the recent U.S. regional bank events have impacted investor confidence and led to tightened financial conditions. The combined effect will facilitate the Fed's desire to slow aggregate demand and cool demand-pull inflation over the next couple of quarters.

There is clear evidence global economic growth has substantially weakened from the highs of 2021. The timing and type of recession that will be experienced remain a wild card. We believe employment will be critical in determining if we experience a hard or soft landing or perhaps rolling recessions occurring throughout the economy at different times. We can already see evidence of a rolling recession, as job losses mount in the information technology sector while other parts of the economy are still growing.

Real GDP Growth Faces Mounting Headwinds [LHS]; Recession Odds Remain Volatile [RHS]

26-Mar-23	Average 2000-2020	Real GDP Growth Forecasts 2021	2022	2023	2024
World	**3.2%**	**6.8%**	**2.3%**	**2.2%**	**3.1%**
Advanced Economies	**1.4%**	**5.3%**	**2.7%**	**0.0%**	**1.2%**
US	***1.8%***	***5.9%***	***2.1%***	***0.8%***	***0.6%***
Canada	***1.8%***	***5.0%***	***3.4%***	***0.2%***	***1.8%***
Euro	1.0%	5.3%	3.5%	-0.5%	0.8%
UK	1.2%	7.6%	4.0%	-0.7%	1.2%
Japan	0.6%	2.2%	1.0%	0.0%	1.1%
Australia	2.6%	5.2%	3.7%	0.9%	1.3%
Emerging Economies	**4.7%**	**7.7%**	**2.0%**	**3.5%**	**4.3%**
Emerging Asia	6.1%	8.5%	1.5%	5.0%	5.0%
China	7.3%	8.4%	3.0%	5.5%	5.0%
India	6.4%	8.9%	6.7%	6.0%	5.8%
Russia	3.6%	5.6%	-2.5%	-2.3%	1.8%
Brazil	2.1%	5.0%	2.9%	1.0%	1.5%
Mexico	1.6%	4.7%	3.1%	1.0%	1.8%



Source: Capital Economics; FactSet; Bloomberg; Raymond James Ltd.; Real GDP growth data as of March 26, 2023. Recession odds data as of March 31, 2023.

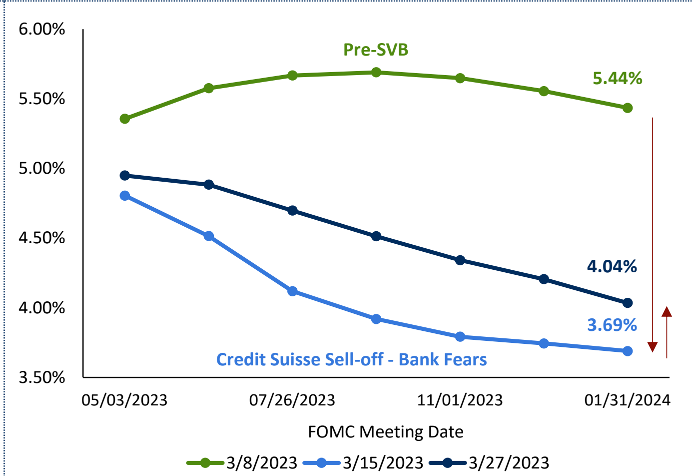
Fed and Market on Two Separate Pages

During the Federal Open Market Committee (FOMC) meeting held on March 21–22, 2023, meeting participants submitted their projections of the most likely economic outcomes. The median participants forecast for the Fed Funds rate is 5.1 per cent (range 4.9-5.9 per cent).

According to CME Fed Funds futures, the market predicts a one per cent probability that interest rates will be 5-5.25 per cent by year-end. In fact, the market is anticipating the Fed will be easing monetary conditions by September. Clearly, there is a significant disconnect between the two camps.

Policy Rate Forecasts [LHS]; Future Fed Funds Rate Outlook Has Collapsed [RHS]

26-Mar-23	Interest Rate Forecasts			
	Current	2022	2023	2024
Advanced Economies				
US	5.00%	4.38%	4.13%	2.63%
Canada	4.50%	4.25%	4.00%	2.50%
Euro	3.50%	2.00%	4.00%	3.00%
UK	4.25%	3.50%	4.50%	3.00%
Japan	-0.10%	-0.10%	-0.10%	-0.10%
Australia	3.60%	3.10%	4.10%	3.35%
Emerging Economies				
China	3.65%	2.00%	2.00%	2.00%
India	6.50%	6.25%	6.75%	5.50%
Russia	7.75%	7.50%	8.00%	7.25%
Brazil	13.75%	13.75%	12.75%	10.00%

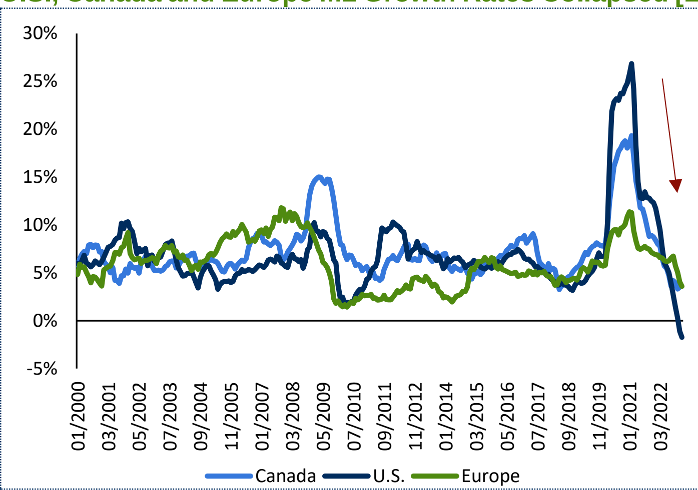


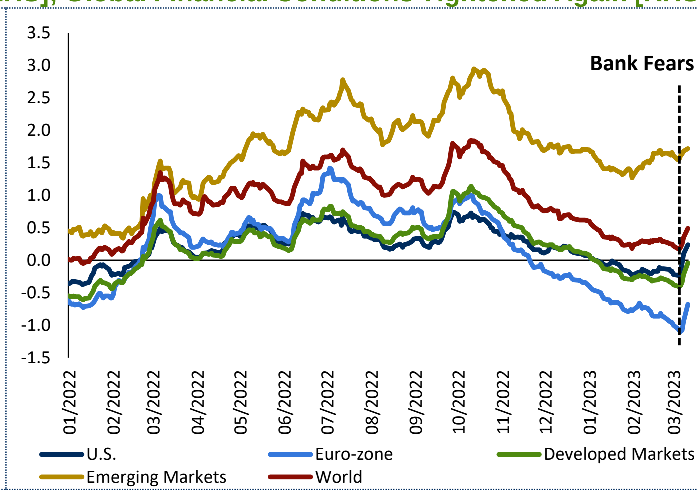
Source: Capital Economics; Bloomberg; Raymond James Ltd.; Raymond James Financial; Policy rate forecasts as of March 26, 2023. Future Fed Funds rate outlook as of March 27, 2023.

While the Fed remains squarely focused on inflationary pressures, the market is concentrated on the significant contraction in money supply and tighter financial conditions, which will weigh on economic output in the coming months.

The market typically gets it right, so we anticipate the Fed will pause, if not pivot, later this year.

U.S., Canada and Europe M2 Growth Rates Collapsed [LHS]; Global Financial Conditions Tightened Again [RHS]





Source: Capital Economics; FactSet; Raymond James Ltd.; Raymond James Ltd.; M2 data as of January 31, 2023; Financial conditions data as of March 13, 2023.

Raymond James Ltd. – Recession Monitor

One commonly watched indicator of a possible recession on the horizon is the shape of sovereign yield curves for a particular region, which is currently inverted and near an extreme of 56 bps and 84 bps, respectively, in the U.S. and Canada. We note recessions typically occur once the curve re-steepens and un-inverts.

Given this, we opted to improve our batting average by leveraging a list of leading, coincident and lagging economic and market indicators, which, over the past 20 years, have correctly signalled a recession in the U.S. and Canada. Today, many of those indicators have deteriorated, and employment will be a key indicator to watch, particularly initial jobless claims and the rate of change in unemployment.

U.S. and Canadian Economic and Market Indicators Continue to Weaken into Recessionary Territory

Indicator	Recession Signals	Dot-com Bubble (03/2001 - 11/2001)	Financial Crisis (12/2007 - 06/2009)	COVID-19 Pandemic (02/2020 - 04/2020)	Year End - 2021 U.S. & Canada	Current (U.S.)	Current (Canada)
Leading Indicators							
10yr-2yr Spread	10yr-2yr yield curve has inverted prior to every recession (i.e., the spread has turned negative)	✓	✓	✓	✗	✓	✓
Leading Economic Index (LEI)	The YoY change in the LEI has turned negative prior to every recession	✓	✓	✓	✗	✓	N/A
Consumer Confidence Index	Consumer confidence has collapsed before every recession in the U.S., & similarly prior to most recessions in Canada	✓	✓	✓	✓	✓	✓
Initial Claims for Unemployment Insurance	The number of initial claims typically reaches an inflection point (i.e., troughs) and begins to rise prior to a recession	✓	✓	✓	✗	✓	✓
Purchasing Managers' Index (PMI)	PMIs, which measure the level of economic activity of the economy, tend to fall below 50 into a contraction territory before a recession (> 50 = expansion; < 50 = contraction)	✓	✓	✓	✗	✓	✓
Coincident Indicators							
Real GDP Growth	Real GDP growth has declined for at least two consecutive periods (QoQ/MoM) during every recession	✓	✓	✓	✗	✗	✗
Disposable Personal Income	The disposable income level tends to decline prior to entering a recession and falls further during a recession	✓	✓	✓	✗	✓	✗
Savings Rates	Savings rates tend to decrease prior to a recession and increase during a recession	✓	✓	✓	✓	✓	✓
Lagging Indicators							
CPI	Inflation typically peaks before/during a recession	✓	✓	✓	✗	✓	✓
Financial Conditions Index	Financial conditions tend to tighten aggressively and reach a peak prior to a recession	✓	✓	✓	✓	✓	✓
Corporate Profits	The YoY growth in profits typically turns negative prior to every recession	✓	✓	✓	✗	✓	✓
Unemployment Rate	The unemployment rate signals a recession when the 3-month moving average rises 0.5% or more versus the prior 12-month low	✓	✓	✓	✗	✗	✗

Source: FactSet; Raymond James Ltd.; Data as of March 31, 2023.

U.S. Economic Outlook

After several years of fiscal largesse due to the efforts to minimize the effects of the COVID-19 pandemic, the Fed embarked on a campaign to increase interest rates in an effort to slow down economic activity. This fiscal largesse plus the closing of the economy during the pandemic generated excess demand and produced levels of inflation not seen since the 1980s. However, while higher interest rates have slowed the most interest rate-sensitive sectors of the economy like investment, and especially investment sectors linked to the housing market and manufacturing, the service side of the U.S. economy has continued to expand. This has kept the U.S. labour market strong and provided continued strength to income, especially as inflation, which hit a 40-year high by mid-2022, slowed down to about six per cent by February of this year.

But while the Fed's interest rate hikes have not been able to slow down the services sector, they seem to have created strains in the banking system. That's because bad investment decisions at several banks have increased concerns about financial stability, resulting in the FDIC and other regulatory institutions stepping in to contain any potential damage. Furthermore, these strains seem to have spilled over into international markets as long-standing issues with one international bank also pushed Swiss regulators to broker a deal to save Credit Suisse, the second largest bank in Switzerland.

A Pulse Check on the U.S. Economy

	ECONOMIC INDICATOR	COMMENTARY
Neutral	GROWTH	GDP growth is expected to continue to moderate over the next several quarters and we expect a recession to start in 3Q23.
Neutral	EMPLOYMENT	Nonfarm payrolls have remained strong during the first months of the year, with other labour market indicators also showing a still tight labour market.
Neutral	CONSUMER SPENDING	Consumer spending has remained relatively strong, supported by a very tight labour market and slowing inflation, and complemented by still-strong credit card lending. However, we expect credit card lending to start slowing down in the coming quarters.
Neutral	BUSINESS INVESTMENT	Interest rates will continue to negatively impact the strength of business investment in 2023.
Neutral	INFLATION	We expect inflation to continue to slow down as economic activity continues to weaken. Furthermore, we expect shelter costs, which continue to be elevated, to help the disinflationary process, starting in the second half of 2023.
Neutral	LONG-TERM INTEREST RATES	The yield curve recovered from its deepest inversion in over four decades as the market anticipates the Fed's tightening cycle is coming to an end. This has driven yields across the curve significantly below their recent peak. We expect yields to grind lower as slower growth and declining inflation pressures allow the Fed to pivot to an easier monetary policy stance, which we expect in early 2024.
Neutral	FISCAL POLICY	Contributions to GDP from government spending this year are unlikely to change significantly, while we remain concerned about the coming fight to raise the debt ceiling.
Neutral	THE DOLLAR	The U.S. dollar has weakened somewhat compared to the levels experienced last year but differences in inflation as well as interest rates between the U.S. and the rest of the world will help keep the U.S. dollar from weakening too much from current levels.
Neutral	REST OF THE WORLD	We continue to expect a weakening global economy during 2023 as central banks continue to increase interest rates. The only exception will be China, which is trying to boost demand by expanding monetary policy after abandoning its 'zero COVID' policy late last year.
Unfavourable	MANUFACTURING	Manufacturing production has been weakening for some time, and we expect this weakness to continue. We expect manufacturing to weaken further in the coming quarters.
Unfavourable	HOUSING AND RESIDENTIAL CONSTRUCTION	Although some sectors of the housing market have stabilized and are no longer falling, we expect the sector to remain weak in the coming quarters as interest rates and affordability reduces the pool of potential buyers.
Unfavourable	MONETARY POLICY	The Fed has likely one more hike to go this year, which will bring the terminal rate to 5.25%. Contrary to the market, we believe that the Fed will hold rates steady at restrictive levels for the remainder of 2023.

Source: Raymond James Financial; Raymond James Ltd.; Data as of March 31, 2023.

Washington Policy

Bank Panic and Geopolitics Drive Macro Volatility

Macro volatility will continue to characterize the market in the coming months with the collapses of Silicon Valley Bank (SVB) and Signature Bank – the second- and third-largest bank collapses in U.S. history, respectively – and ongoing geopolitical risks likely to shape market concerns and capture DC's attention in the coming months. Overall, the processes designed to address bank failures were relatively successful, and lawmakers and regulators alike are now focused on understanding how concerns around the banks slipped under the supervisory radar and on the path ahead. A new era of stricter regulatory standards appears to be coming in the near future with more stringent capital, liquidity and risk management standards as priorities for regulators. Alongside the banking volatility, markets continue to navigate a new global era with U.S.-China tensions, COVID and the war in Ukraine in focus. These developments have highlighted that geopolitical risks are on the rise and are becoming a more prominent part of the macro investment decision-making process.

What Has DC Done So Far to Respond to the Bank Panic?

Regulators in DC took rapid action to respond to the failures of SVB and Signature Bank in March, seeking to stem panic and affirm their "resolute commitment" to a secure banking system as the bank collapses rattled markets. The Fed and the FDIC used a systemic risk exemption to fully insure all depositors of SVB and Signature Bank (including those in excess of the $250,000 deposit insurance limit) to prevent additional runs on community and regional banks. The Fed additionally created a liquidity facility to be accessed by all U.S. depository institutions, seeking to address the threat of deposit withdrawals leading to further liquidity issues. The Fed also coordinated with international partners to launch a coordinated USD swap line effort. Overall, the regulatory mechanisms to address the bank failures worked largely as intended by Congress, and attention in DC has turned to assessing the path forward in terms of regulatory reforms and oversight.

What Will DC Do Now?

Congress does not have a clear vision as to "next steps" at this stage, as the Hill is focused on fact-finding and laying the groundwork for future regulatory reforms. However, the sentiment in DC is that of a "post-crisis" phase, which should be viewed as a market positive. In House and Senate hearings on the bank collapses, Republicans and certain Democrats were sharply critical of the regulators' oversight of the failed banks prior to their collapse and of the steps taken to address the issue. But the tone of questioning over the two days was overall measured and largely avoided volatility-stoking headlines, which we view as a positive and an indication of a desire to meaningfully revisit banking regulations.

Other than the consideration of legislation on strengthening claw back provisions and penalties for bank executives engaged in misconduct, near-term legislative priorities are unclear with deposit insurance fixes emerging as a potential next step given the heightened attention on the issue. Ambiguities remain around the full extent of existing regulatory authorities to temporarily expand deposit insurance limits. While Congress has a clear role and authority to address deposit insurance limits, it is unclear as to whether and how it may exercise them (especially given rising concerns around moral hazard and unintended consequences). The FDIC is currently undergoing a review to determine the potential need for an upwards revision to deposit insurance limits and the replenishment of the Deposit Insurance Fund (DIF), which will be released on May 1.

One near-certainty is that stricter regulatory standards for large banks are on the horizon. Likely areas of focus will be higher capital, liquidity and risk management standards for banks as well as the consideration of new factors such as growth, customer concentration and interest rate risks. Momentum to update the bank regulatory framework was strong prior to the bank failures, and the impacts of the recent collapses will serve as tailwinds for Fed's Vice Chair for Supervision Michael Barr's agenda to strengthen key areas such as capital levels and resolvability requirements. However, regulators are unlikely to see expansions to their existing authorities given Congressional scrutiny on the use of their existing powers and affirmations from the regulators themselves that the existing supervisory toolkit is sufficient. Smaller banks are likely to be spared the brunt of regulatory reforms with Barr confirming that the Fed's ongoing capital reviews will not apply to smaller banks and mounting political pressure to exempt smaller banks from the special assessment used to replenish the DIF growing on the FDIC.

Russia-Ukraine War

A new major war in Europe has renewed concerns over "great power" conflicts vs. the regional threats that the world and markets have navigated in the post-WWII era. Looking back over the last year, the war's macro impact on the market and global economy has been one of an elevated geopolitical risk premiums and the threat of disruptions for key global commodities. The two most impacted sectors have been energy and defence – a trend we expect will continue. As we move into year two, the focus will be on whether an off-ramp becomes clearer, easing market pressures or if the larger geopolitical risk premium is here to stay. An optimistic assessment sees the war de-escalate toward a potential ceasefire and the beginning of a resolution process around Q3. But we caution that the first half of this year will continue to see a heightened risk of escalation that can drive periods of volatility as the war unfolds.

U.S.-China Relationship

Economic competition between the U.S. and China is here to stay with the Biden administration taking a wide-reaching approach to its "competition, not conflict" China agenda. Bilateral relations have seen greater tensions following the discovery of a Chinese-operated balloon in U.S. airspace, the China-Russia relationship deepening and the U.S. ratcheting up its "competition, not conflict" agenda. The Chinese government has additionally ratcheted up its criticism of recent U.S. actions, describing the policies as "containment, encirclement and suppression". Priorities for the Biden administration have included export control agreements, industrial policy and an upcoming screening mechanism for U.S. investments in China. These priorities constitute uncharted waters for the U.S. and would introduce a deal of uncertainty to cross-border capital flows. These developments point to the U.S. and China entering a period of heightened tensions and an increasingly combative tone in the bilateral relationship, elevating the risk level around potential future flashpoints such as maritime accidents in the Taiwan Strait or the South China Sea.

In Congress, China-related legislation has picked up in activity in recent months, serving as one of the few areas of bipartisan compromise in the new Congress. However, differences in priorities and implementation may slow the progress of bills. TikTok has been in the spotlight with a flurry of bills being filed since the new Congress convened in January. Impacts are more likely to be seen in the longer term rather than immediately, but the momentum highlights the increasingly critical eye that Capitol Hill is taking on Chinese tech and the potential secondary impacts for the tech sector at large.

Canadian Economic Outlook

The Federal government delivered its 2023 budget, dampening any hope or intention to eventually balance the budget this decade. The government's fall update had projected a surplus in 2027/28. That forecast has gone the way of the dodo. Roughly half of the deficit hit is due to forecasted weaker economic growth, and the other half is due to new spending measures. New measures include grocery rebates for lower-income Canadians and various new green investment incentives to match those outlined in the 2022 U.S. Inflation Reduction Act. On the revenue side of the ledger, there was little in the way of new measures. All told, the debt-to-GDP ratio will tick modestly higher in the coming years.

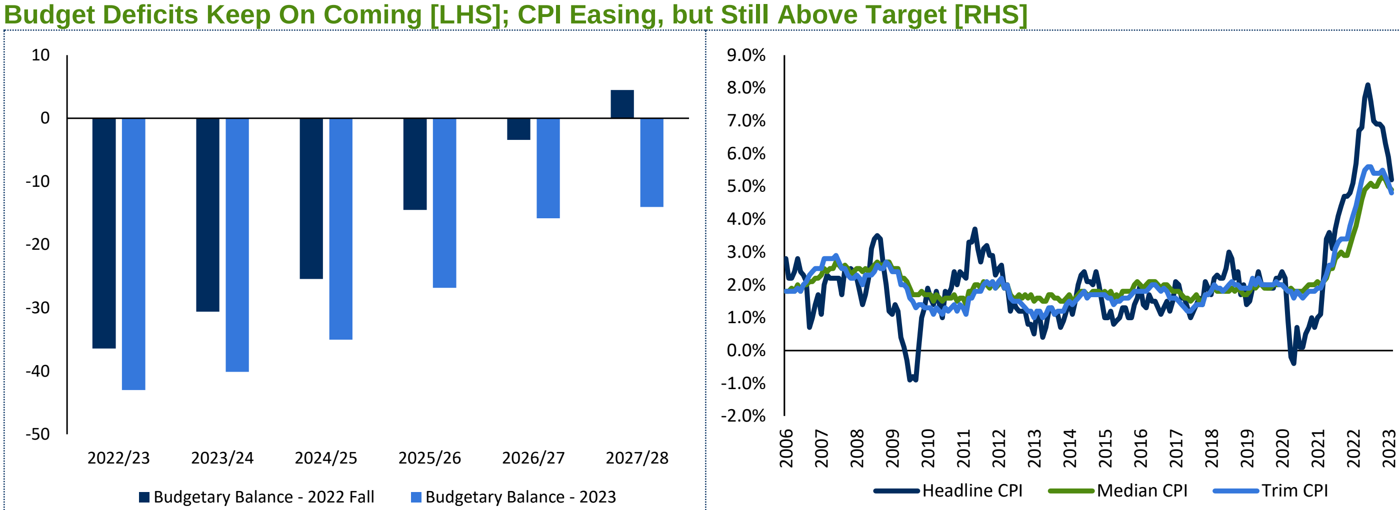
The government's new spending initiatives should not change monetary policy. The BoC paused its rate hiking cycle in January to allow the economy to digest the rapid tightening experienced last year.

Headline CPI inflation has responded favourably, falling to a 14-month low of 5.2 per cent in February, while the core measures also declined to an average of 4.9 per cent.

Similar to the U.S., there are encouraging components of inflation, while wage and shelter costs remain stubbornly persistent. Wage and shelter often lag other components. Thus, we believe it is simply a matter of time until they begin to cool and push CPI towards the BoC's target by early- to mid-2024.

Positive developments on the inflation front will provide the BoC with the latitude to support economic growth later this year when the full impact of high interest rates puts major strains on some households and the broader economy. Similarly to the Fed, the BoC could be ready to cut rates by the end of 2023.

Budget Deficits Keep On Coming [LHS]; CPI Easing, but Still Above Target [RHS]



Source: Capital Economics; FactSet; Raymond James Ltd.; Federal budget as of March 28, 2023. CPI as of February 28, 2023.

U.S. Equities

2023 Outlook after the Bank Event – Pulling Forward Weaker Growth, Lower Inflation, Equity Volatility

In 2022, we acclimatized to resilient consumer demand (8-9 per cent nominal consumer spending growth most of the year), while inflation, unfortunately, was also resilient and was only showing modest improvement after peaking in the summer. The good news was that corporate EPS was resilient as well with 2022 S&P 500 EPS coming in $218, only down slightly from where consensus EPS stood at the beginning of the year ($222), despite the twin disruptions of the Russian war against Ukraine and material lockdowns in China. Both the war and China's lockdowns likely increased the peak of inflation and pushed it into the summer. As well, those two factors likely made the decline frustratingly slow so far with inflation only improving from a peak of ~9 per cent in June to ~7 per cent at year end.

Our view for 2023 is that it will likely also be a volatile year for equities, but for the exact opposite reasons compared to those of 2022. We expect inflation to moderate substantially through 2023. Consumer demand should slow substantially as savings rates, which are currently historically low, revert closer to normal levels, forcing consumers to slow their spending. On top of this, rates increase, student loan payments resume, COVID benefits continue to taper and the labour market should soften. The headwinds to consumer spending are substantial, entering 2023. At the same time, supply chains appear to be improving, and we suspect this should continue through 2023 and 2024, creating increases in aggregate supply while slowing aggregate demand meaningfully. This combination of slowing demand and rising supply should allow inflation to ease meaningfully and long-term rates to decline from current levels, which should cause P/Es to move modestly higher on equity indexes.

S&P 500 2022 Drawdown in NTM P/E vs. Historical Recessions (Peak to Trough)

Index/Sector	Dot-Com Bubble	Financial Crisis	COVID-19	Average	Current (9/2/2020 - 3/31/2023)	Difference (Current Drawdown vs. Historical Average Drawdown)	Current PE NTM	Historical PE (Since 2000)	Premium (+) / Discount (-)	YTD Return
S&P 500	-12.0	-6.7	-5.9	-8.2	-5.9	2.3	18.2	16.0	2.2	7.5%
Communication Services	-12.2	-9.4	-5.8	-9.1	-9.0	0.1	16.6	18.2	-1.6	20.5%
Consumer Discretionary	-7.5	-8.5	-7.2	-7.7	-25.1	-17.4	25.9	17.9	8.0	16.1%
Consumer Staples	-2.2	-5.4	-4.6	-4.1	-1.4	2.7	20.4	18.0	2.4	0.8%
Energy	-7.2	-4.8	7.4	-1.5	38.3	39.8	10.2	13.7	-3.4	-4.7%
Financials	-7.2	-4.9	-6.4	-6.2	-5.2	1.0	12.6	13.0	-0.4	-5.6%
Health Care	-6.7	-7.4	-4.8	-6.3	0.2	6.5	17.3	16.1	1.1	-4.3%
Industrials	-9.4	-8.3	-6.7	-8.1	-8.5	-0.4	18.7	16.2	2.5	3.5%
Information Technology	-40.9	-9.3	-6.6	-18.9	-3.2	15.7	24.7	17.3	7.4	21.8%
Materials	1.4	-9.0	-6.5	-4.7	-6.2	-1.5	16.8	15.3	1.5	4.3%
Real Estate	-0.9	-13.4	-8.4	-7.5	-4.6	3.0	17.4	18.3	-0.9	1.9%
Utilities	-2.2	-6.3	-7.4	-5.3	0.0	5.3	17.8	14.7	3.2	-3.2%

Source: FactSet; Raymond James Ltd.; Data as of March 31, 2023. YTD returns are in USD.

S&P 500 2022 Drawdown in NTM EPS vs. Historical Recessions (Peak to Trough)

Index/Sector	Dot-Com Bubble	Financial Crisis	COVID-19	Average	Current (6/27/2022 - 3/31/2023)	Difference (Current Drawdown vs. Historical Average Drawdown)
S&P 500	-15%	-36%	-21%	-24%	-5%	19%
Communication Services	-17%	-19%	-17%	-18%	-8%	9%
Consumer Discretionary	-37%	-42%	-45%	-41%	-4%	38%
Consumer Staples	4%	-3%	-7%	-2%	0%	2%
Energy	-6%	-64%	-93%	-54%	-4%	50%
Financials	5%	-59%	-35%	-30%	0%	29%
Health Care	9%	0%	-5%	2%	-7%	-9%
Industrials	1%	-38%	-40%	-26%	2%	28%
Information Technology	-59%	-26%	-3%	-29%	-10%	19%
Materials	-42%	-55%	-23%	-40%	-21%	19%
Real Estate	--	-43%	-10%	-27%	-2%	25%
Utilities	-7%	-8%	0%	-5%	3%	9%

Source: FactSet; Raymond James Ltd.; Data as of March 31, 2023.

The black swan for this year, so far, occurred in March and was a very surprising set of bank failures in the U.S. and a large one in Europe. It remains to be seen how this impacts the economy, but we believe the best guess is that it will make the slowdown in growth and inflation occur sooner as it will likely impact loan demand and consumer confidence. Our 2023 EPS estimate for the S&P 500 before the bank event (we won't call it a crisis at this point) was $208 (vs. current consensus of $220). We suspect it will be closer to $200 now, but it's hard to give much certainty to this as the impact is still unknown.

S&P 500 2023 EPS Sensitivity Analysis

EBIT Margin \ Sales Growth	5.0%	4.0%	3.0%	2.0%	1.0%	0.0%	-1.0%	-2.0%	-3.0%	-4.0%	-5.0%	-6.0%
17.90%	249	246	243	240	237	234	231	228	225	222	219	216
17.70%	246	243	240	237	234	231	228	225	222	219	216	213
17.50%	243	240	237	234	231	228	225	222	219	216	213	210
17.30%	240	237	234	231	228	225	222	219	216	213	210	207
17.10%	237	234	231	228	225	222	219	216	213	210	207	204
16.90%	234	231	228	225	222	219	216	213	210	207	204	201
16.70%	231	228	225	222	219	216	213	210	207	204	201	198
16.50%	228	225	222	219	216	213	210	207	204	201	198	195
16.30%	225	222	219	216	213	210	207	204	201	198	195	192
16.10%	222	219	216	213	210	207	204	201	198	195	192	189
15.90%	219	216	213	210	207	204	201	198	195	192	189	186
15.70%	216	213	210	207	204	201	198	195	192	189	186	183
15.50%	213	210	207	204	201	198	195	192	189	186	183	180

2023 Consensus EPS Estimate in 6/2022

2023 Consensus EPS Estimate in 12/2022

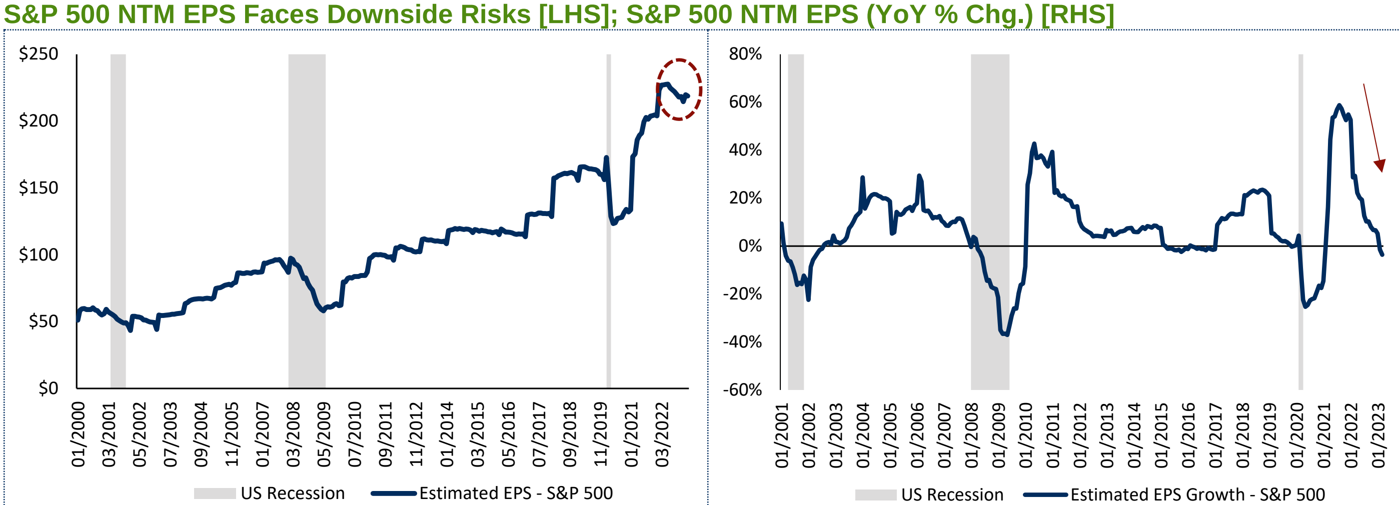
2023 Consensus EPS Estimate in 3/2023

Mild Recession Scenario

Normal Recession Scenario

Source: Raymond James research; Raymond James Ltd.

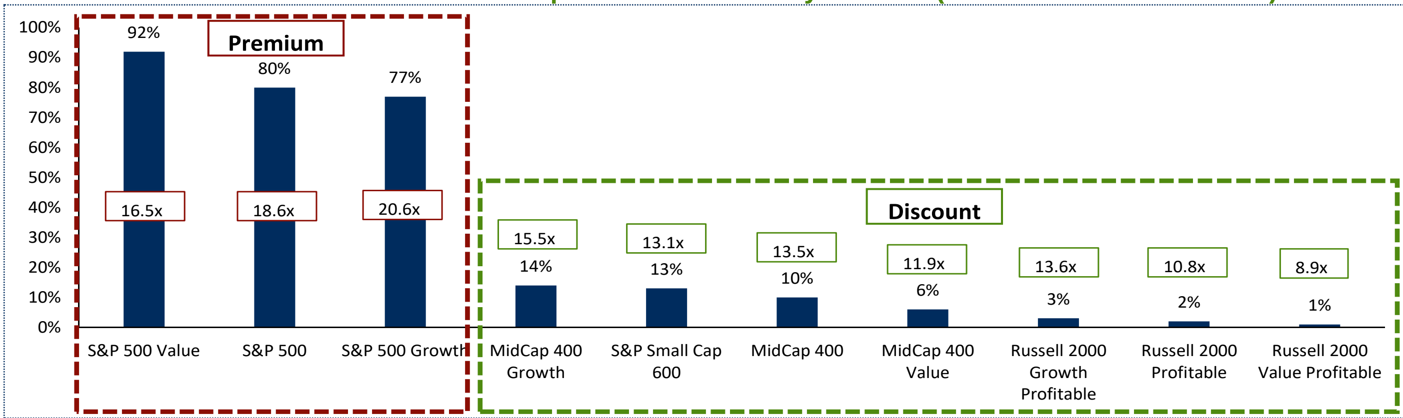
S&P 500 NTM EPS Faces Downside Risks [LHS]; S&P 500 NTM EPS (YoY % Chg.) [RHS]



Source: FactSet; Bloomberg; Raymond James Ltd.; Data as of March 31, 2023.

Economists have been forecasting a modest recession with job losses starting in 2H23, which we believe is most likely. But the bank event certainly increases the chances for a hard landing, which is being priced into more cyclical areas of the equity market. We squarely find ourselves in a late cycle economy right now with the Fed actively trying to soften conditions, which ultimately will lead to lower inflation, lower rates and lower earnings expectations. Against this backdrop, we still expect a reasonably flattish and volatile S&P 500, and although we had expected a better year for small- and mid-caps, we believe this will be reliant on this bank event creating a hard landing/typical recession. Similarly, we had expected very little difference in value and growth in 2023, but the harder the recession, the more that growth should outperform, which is what we saw in March as the market digested the banking event.

Index Level NTM P/E Relative to 20-Year Experience for Nine-Style Boxes (R2K LTM Ex-Non-Earners)



Source: FactSet; Raymond James Ltd.; Raymond James & Associates; Data as of April 10, 2023.

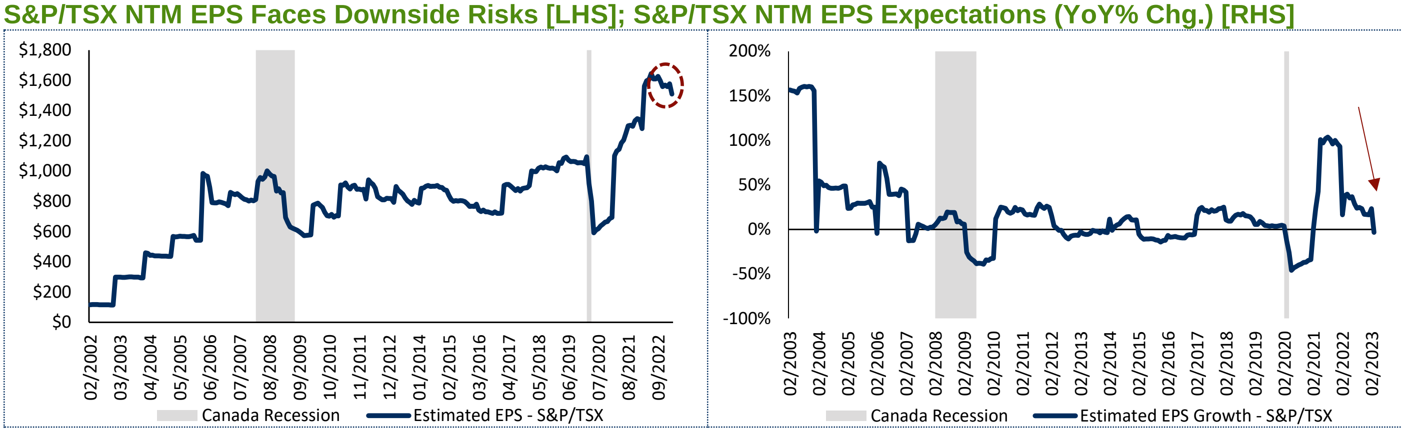
From a sector perspective, real estate is our favourite (less than 10 per cent of U.S. real estate market cap is office or retail space), followed by healthcare and staples, while consumer discretionary, industrials and financials, we suspect, will be the most challenging. For more details, please see our 2023 equity outlook (link to report). Outside of U.S. equities, we expect the U.S. dollar to weaken as China re-opens and for developed and emerging equity markets outside the U.S. to modestly outperform, especially later in the year, as China's reopening becomes more impactful. And although it may be that banking conditions in Europe alter this view, it is too early to come to any meaningful conclusions on that.

Canadian Equities

Momentum for Canadian and U.S. stocks continued from Q4/22 with the S&P/TSX Composite Index (S&P/TSX) increasing 4.6 per cent in the first three months of 2023 and the S&P 500 increasing 7.4 per cent in Canadian dollar terms. Both markets rose on the back of solid information technology sector performance. However, the climb higher was not smooth as volatility in both markets heightened because of hotter-than-expected inflation data, fears of a banking crisis and declining oil and gas prices hurting the energy-weighted S&P/TSX.

As we look toward the remainder of the year, while we continue to expect downside to earnings amid a moderating inflation backdrop, valuations are attractive on a historical and relative basis, setting up the S&P/TSX for a low-mid single-digit return year in 2023 on the back of expanding multiples.

S&P/TSX NTM EPS Faces Downside Risks [LHS]; S&P/TSX NTM EPS Expectations (YoY% Chg.) [RHS]



Source: FactSet; Bloomberg; Raymond James Ltd.; Raymond James Financial; Data as of March 31, 2023.

Examining EPS expectations for the year, we believe they may be overly optimistic, particularly in light of a potential mild recession. Typically, earnings drop by 36 per cent in recessions, yet 2023 EPS projections have only decreased by eight per cent from the 2022 peak, suggesting further downward adjustment may be necessary in case of a mild recession.

S&P/TSX Composite 2022 Drawdown in NTM EPS vs. Historical Recessions (Peak to Trough)

Index/Sector	Financial Crisis	COVID-19	Average	Current (7/13/2022 - 3/31/2023)	Difference (Current Drawdown vs. Historical Average Drawdown)
S&P/TSX Composite	-38%	-33%	-36%	-8%	27%
Communication Services	-6%	-12%	-9%	-7%	2%
Consumer Discretionary	-25%	-41%	-33%	-5%	28%
Consumer Staples	1%	4%	2%	11%	9%
Energy	-60%	-107%	-84%	-21%	62%
Financials	-20%	-19%	-19%	2%	21%
Health Care	18%	-54%	-18%	-40%	-22%
Industrials	-21%	-39%	-30%	17%	47%
Information Technology	-5%	0%	-2%	9%	12%
Materials	-52%	-2%	-27%	-33%	-6%
Real Estate	--	-7%	-7%	0%	6%
Utilities	-15%	-4%	-10%	6%	15%

Source: FactSet; Raymond James Ltd.; Data as of March 31, 2023.

Should sales growth temper and margins compress amid a moderating inflation backdrop, we suspect S&P/TSX consensus EPS expectations for 2023 may compress further. In fact, the Street went from expecting 2023 EPS of $1,680 back in June 2022, down to $1,600 in December 2022 and even further down now to $1,520 as of March 2023. In the event of a mild recession, we believe EPS may trend lower to around the $1,400 level.

S&P/TSX Composite 2023 EPS Sensitivity Analysis

EBIT Margin \ Sales Growth	9.5%	8.5%	7.5%	6.5%	5.5%	4.5%	3.5%	2.5%	1.5%	0.5%	-0.5%	-1.5%
20.00%	1800	1760	1720	1680	1640	1600	1560	1520	1480	1440	1400	1360
19.50%	1760	1720	1680	1640	1600	1560	1520	1480	1440	1400	1360	1320
19.00%	1720	1680	1640	1600	1560	1520	1480	1440	1400	1360	1320	1280
18.50%	1680	1640	1600	1560	1520	1480	1440	1400	1360	1320	1280	1240
18.00%	1640	1600	1560	1520	1480	1440	1400	1360	1320	1280	1240	1200
17.50%	1600	1560	1520	1480	1440	1400	1360	1320	1280	1240	1200	1160
17.00%	1560	1520	1480	1440	1400	1360	1320	1280	1240	1200	1160	1120
16.50%	1520	1480	1440	1400	1360	1320	1280	1240	1200	1160	1120	1080
16.00%	1480	1440	1400	1360	1320	1280	1240	1200	1160	1120	1080	1040
15.50%	1440	1400	1360	1320	1280	1240	1200	1160	1120	1080	1040	1000
15.00%	1400	1360	1320	1280	1240	1200	1160	1120	1080	1040	1000	960
14.50%	1360	1320	1280	1240	1200	1160	1120	1080	1040	1000	960	920
14.00%	1320	1280	1240	1200	1160	1120	1080	1040	1000	960	920	880

2023 Consensus EPS Estimates in 6/2022

2023 Consensus EPS Estimates in 12/2022

2023 Consensus EPS Estimates in 3/2023

Mild Recession Scenario

Severe Recession Scenario

Source: Raymond James research; Raymond James Ltd.

From a valuation perspective, the S&P/TSX trades at 13.2x next 12 months earnings, an attractive discount to the 20-year median of 14.6x. Looking at individual sectors, energy and financials sectors appear attractive from a valuation perspective, while the information technology and industrials sectors face downside risks. We believe investors should remain selective in the current environment and consider using periods of weakness to add to select positions. A focus on quality stocks is recommended, as they have demonstrated resilience in similar market conditions.

S&P/TSX Composite 2022 Drawdown in NTM P/E vs. Historical Recessions (Peak to Trough)

Index/Sector	Financial Crisis	COVID-19	Average	Current (6/8/2020 - 3/31/2023)	Difference (Current Drawdown vs. Historical Average Drawdown)	Current PE NTM	Historical PE (Since 2000)	Premium (Green) / Discount (Red)	YTD Return
S&P/TSX Composite	-8.4	-5.0	-6.7	-8.4	-1.7	13.2	14.6	-1.4	4.6%
Communication Services	-7.2	-4.7	-5.9	1.4	7.3	19.1	15.8	3.3	3.2%
Consumer Discretionary	-7.6	-5.8	-6.7	-8.4	-1.7	14.9	14.3	0.6	4.6%
Consumer Staples	-5.6	-4.7	-5.2	-0.1	5.0	16.6	15.9	0.8	7.9%
Energy	-9.3	0.1	-4.6	16.5	21.1	10.1	15.0	-4.9	-2.3%
Financials	-5.6	-4.3	-5.0	-2.5	2.4	9.3	11.4	-2.1	1.7%
Health Care	-7.2	-15.8	-11.5	-42.2	-30.7	12.5	16.5	-4.1	0.9%
Industrials	-9.9	-4.7	-7.3	-10.0	-2.7	23.0	15.6	7.4	6.5%
Information Technology	-16.7	-12.4	-14.6	-14.4	0.2	36.1	21.7	14.4	26.5%
Materials	-12.7	-5.5	-9.1	-7.5	1.6	16.7	17.0	-0.4	8.1%
Real Estate	--	-8.2	-8.2	0.7	8.9	15.1	14.7	0.4	5.8%
Utilities	-6.4	-10.7	-8.6	-4.4	4.2	20.4	17.9	2.5	6.7%

Source: FactSet; Raymond James Ltd.; Data as of March 31, 2023. YTD returns are in CAD.

Fixed Income

While North American inflation remains elevated, there are no signs of a resurgence, so it appears peak inflation is behind us in this cycle. While the BoC has paused its rate hiking cycle, the Fed slowed its rate hikes pace further from 50 bps in December to 25 bps in February and March, indicating that both central banks feel less pressured to aggressively fight inflation. Both central banks continue to warn they are fully prepared to reengage in the inflation battle should there be a resurgence of price pressures or should inflation not begin to subside.

The rapid rise in short-term interest rates by central banks helped create what can only be described so far as a bank event, primarily in the U.S. A combination of rising interest rates and inflation caused a drain on depository liquidity through withdrawals for rising expenses and a depository flight to other alternatives such as money market mutual funds. Adding to the issue was a decline in depository asset valuations from higher interest rates and a large percentage of federally uninsured deposits in certain institutions.

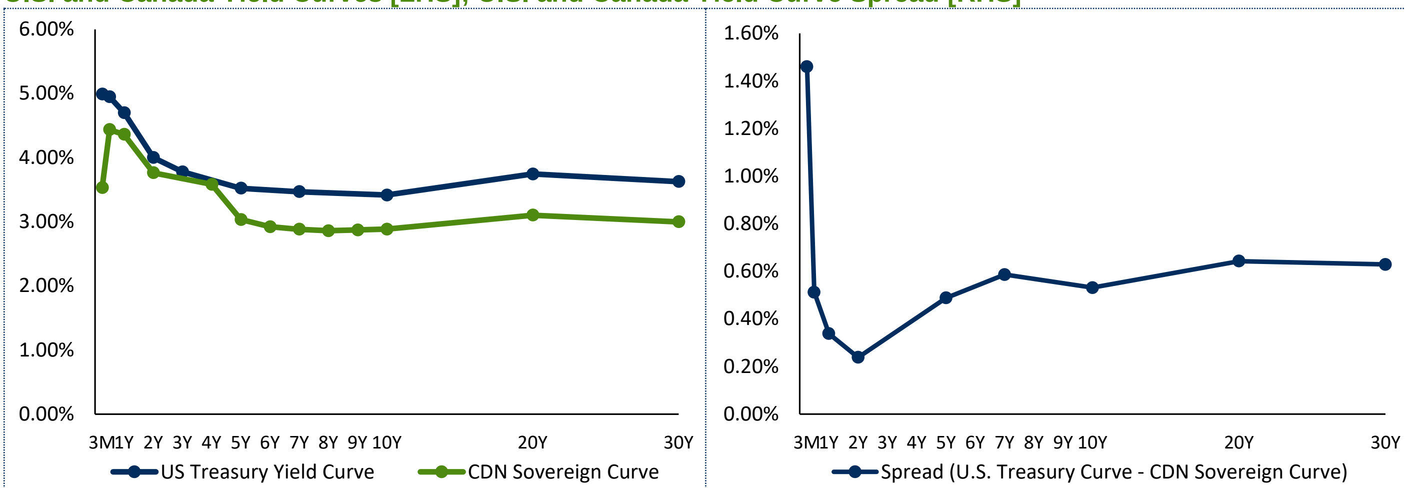
When a large percentage of uninsured deposits were withdrawn from these institutions, the Fed stepped in with a new one-year depository lending program to add liquidity and, most importantly, restore confidence in the banking system. The Fed's latest rate hike included commentary that the bank event would likely result in increasingly tighter financial conditions, thereby effectively doing some of the Fed's work for them. Data from the Fed on April 7, 2023 showed that the most severe U.S. bank lending contraction on record occurred in the last two weeks of March.

While the Fed suggested they may have fewer rate hikes coming, the markets continue to believe the Fed will hike rates one more time by 25 bps. Currently, the market is pricing in about a 70-per cent chance of a 25-bps hike on May 3, 2023. The financial markets are pricing in no further rate increases by the BoC. In Canada, the markets expect policy rate cuts to begin as early as September/October of this year, while, in the U.S., cuts are currently expected as early as September. While there are indications that the economy will continue to slow and there remains uncertainty surrounding the banking system, we believe the expectations for central bank policy rate cuts are overly aggressive.

Although a reversal in central bank policy rates may be further off than the market expects, we continue to believe that yields, especially of longer maturities, have peaked, so we reiterate our call to add duration/maturity to your fixed income portfolio. Given that we are likely to be closer to the end of tighter central bank policy, we recommend you reduce floating rate exposure in favour of fixed interest rates over your investment horizon. History has shown that investing further out the yield curve, even when shorter rates are higher, has proven to be a winning scenario for investors.

We continue to like U.S. mortgage-backed securities for their cash flow generating capabilities, as well as U.S. callable agency securities (especially at prices below par), and U.S. and Canadian government securities. With inflation rates and expectations on the decline, we do not suggest holding inflation-protected securities of either countries. The U.S. yield curve offers a higher yield across the entire yield curve, so for investors capable of investing in the U.S., we suggest an overweight. Given what we see as an approaching North American recession, we continue to underweight corporate bonds in both jurisdictions as a general recommendation. Investors holding corporate securities should focus on up-in-quality, well-researched entities.

U.S. and Canada Yield Curves [LHS]; U.S. and Canada Yield Curve Spread [RHS]



Source: FactSet; Raymond James Ltd.; Raymond James Financial; Data as of April 10, 2023.

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