AGF ASSET ALLOCATION COMMITTEE

Q1 2024

Quarterly Outlook and Model Portfolio Allocations

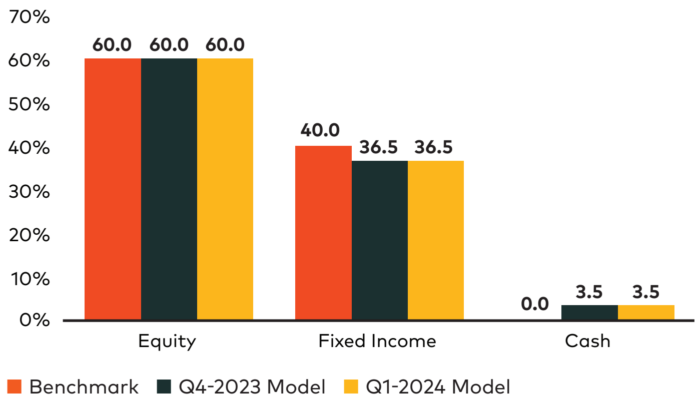
Asset Allocation

The AGF Asset Allocation Committee (AAC) continues to favour equities over fixed income even as inflationary pressures moderate and the global economic outlook softens.

Economic growth has continued to surprise to the upside over the period under review, however, meaningful progress on inflation contributed to more dovish language from Central Banks as markets continue to adapt to the effects of higher-than-target inflation levels. The economic activity over the quarter was resilient, providing further support to a soft-landing scenario if inflation continues to moderate. U.S. equity volatility saw a spike early in the quarter on flaring tensions in the Middle East, however, it ended the year near its 52-week lows on increased hopes of rate cuts coming in the first half of 2024.

The AAC top-level asset allocation saw little change from the previous quarter. Equities were set to 60%, which is in line with the benchmark. The AAC maintained an underweight to fixed income due to its sensitivity to interest rates in the face of resilient albeit moderate economic growth, as well as rate cut expectations that we perceived to be overoptimistic. New geopolitical conflicts could impact already strained global supply chains, posing an upward risk to inflation, and reversing recent progress. The AAC elected to keep the cash allocation at 3.5%.

FIGURE 1: Asset Allocations

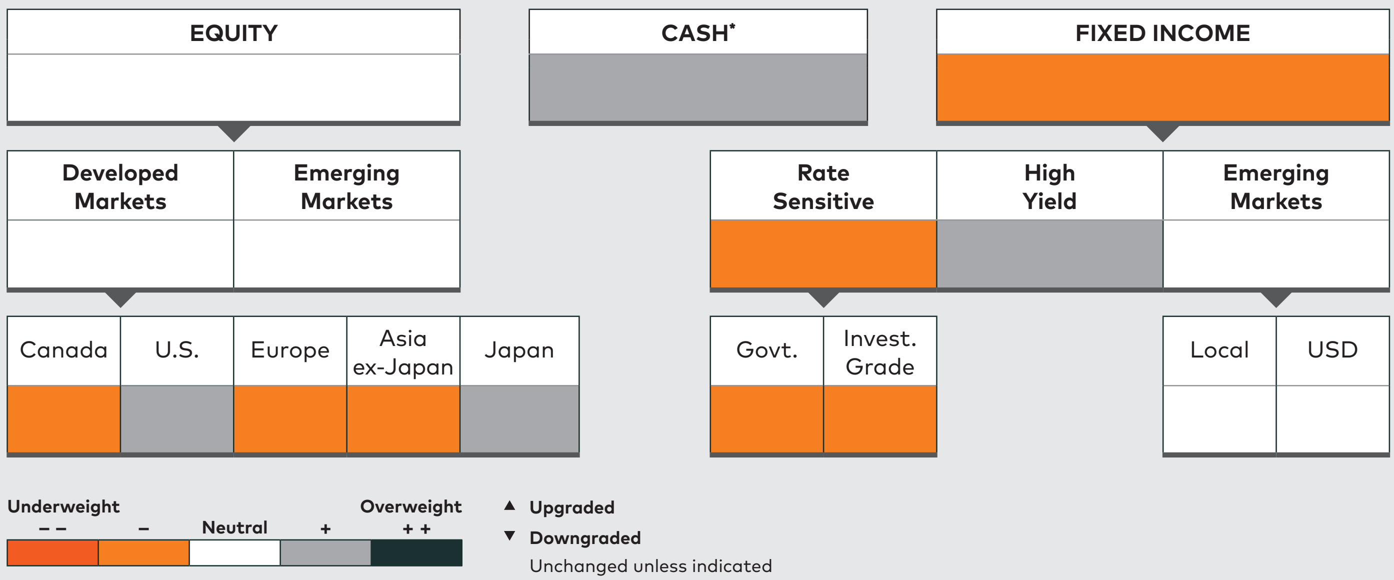


Source: AGF Asset Allocation Committee, December 31, 2023.

Benchmark: 10% Bloomberg Canada Aggregate Bond Index / 25% Bloomberg Global Aggregate Bond Index / 2.5% Bank of America/Merrill Lynch U.S. High Yield Master II Total Return Index / 2.5% JPMorgan EMBI Global Total Return Index / 16.5% S&P/TSX Capped Composite Total Return Index / 24.2% S&P 500 Total Return Index / 9.3% MSCI Europe Index / 3.5% MSCI Japan Index / 1.7% MSCI Pacific ex-Japan Index / 4.8% MSCI Emerging Markets Index.

20240311-3426086

Q1-2024 Market Outlook – Portfolio Applications



* neutral weight at 0%

Source: AGF Asset Allocation Committee, December 31, 2023.

Equity

- Developed and Emerging markets are neutral
- U.S. markets remain resilient and are supported by a strong, albeit weakening, consumer and the potential for lower rates, but have had a significant move higher and may need to digest optimistic sentiment levels
- Canada remains vulnerable to moderating housing prices, an indebted consumer and challenged energy markets
- Europe continues to be impacted by geopolitical tensions with the war in Ukraine and threats to the energy sector. Further challenging Europe's economic outlook is a weak manufacturing sector and a decelerating service sector
- Slowing global growth may continue to impact Asia Pacific Markets (ex-Japan), which is partially offset by the potential for additional stimulus from China
- We believe the Bank of Japan's accommodative monetary policy boosts market prospects along with relative valuations. In addition, Japan benefits from its high manufacturing exposure as global supply chains adjust as well as ongoing corporate reforms

Fixed Income

- Persistent albeit moderating inflation continues to temper the outlook for sovereign bonds despite a more dovish Federal Reserve and decelerating economic growth
- The ongoing inversion of the yield curve offers less potential for long bond yields to fall much (prices to rally) even if inflation and growth continue to moderate unless central banks pivot more rapidly and significantly to easing
- Corporate credit yields are still attractive, in our opinion, if the economy avoids a recession and cash flows hold. Spreads remain slightly below historical levels moderating the outlook, but continue to provide opportunities on a relative basis
- Emerging Market bonds offer higher yields and diversification

Cash

- Cash remains overweight as it continues to provide a cushion to soften the impact of volatility. Cash yields are higher as policy rates have moved higher, and remain competitive compared to bond yields

20240311-3426086

Equity Allocation

The AAC maintains its neutral allocation to equities as economic data, mixed earnings results, and continued geopolitical tensions are keeping risks elevated and can drive volatility throughout the reporting period. Inflation levels broadly moderated year-over-year (YoY) but remained elevated versus target levels, while resilient economic activity has widened the path towards a soft landing. Notwithstanding, Developed Markets (DM) and Emerging Markets (EM) are favoured over fixed income.

The Federal Reserve (Fed) and European Central Bank (ECB) extended their rate pauses as evidence of slowing growth in key areas of the economy became more apparent over the quarter. U.S. equity indices posted positive performance during the period as the higher-for-longer narrative began to unwind on lower inflation trends, while Chairman Jerome Powell indicated rate cuts would be necessary to achieve the Fed's soft-landing scenario.

A strong labor market continues to support consumer spending, a key component of the U.S. economy. This in turn has supported some measures of confidence, helping them improve off low levels, assisting the prospects of equities in many sectors. At the same time, earnings growth reached a trough in Q2, with growth shifting back into positive territory in Q3 and remaining positive in Q4.

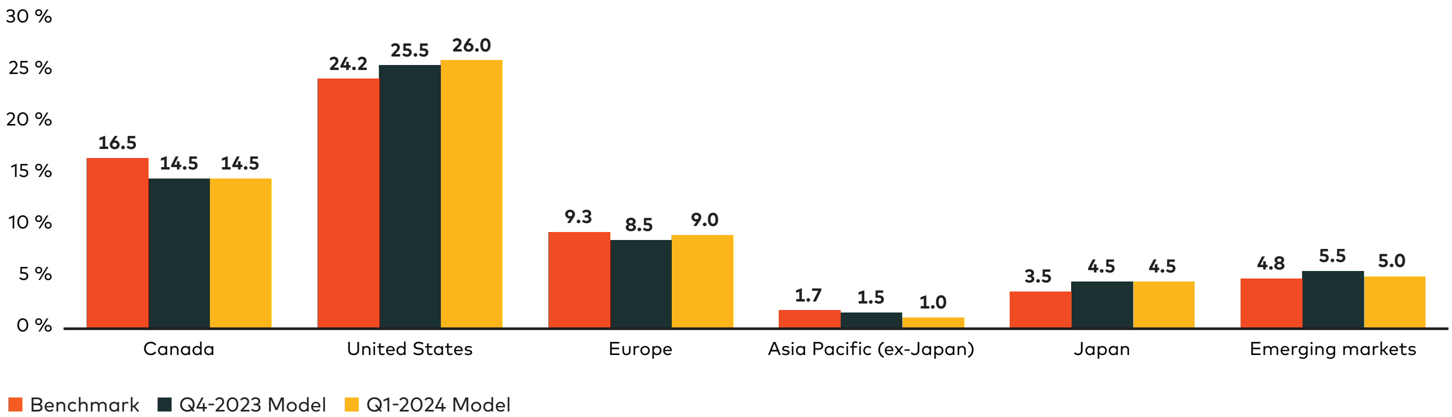
Japanese equities also remain overweight, having been aided by ongoing share buybacks, improved corporate governance and large household cash balances on the sidelines. A lack of meaningfully tighter monetary policy in the first half of 2024 will likely keep financial conditions loose, while a re-direction of investment flows out of China could benefit Japanese equities.

The AAC maintains an underweight to Canadian equities as concerns over the banking sector, a dejected housing market and highly indebted consumers will continue to impact the economy. Concerns about the possibility of a recession have risen after the Q3 negative GDP print, and signs of a slowdown in consumer spending. In the absence of surprises in inflation numbers, the Bank of Canada (BoC) is projected to extend its pause on rates, while waiting for the impact of previous hikes to continue making their way through the economy. Recent inflation readings have come in higher than expected, putting the BoC in a more difficult situation than its peers.

The AAC maintained its slight underweight position to Europe as sentiment remains neutral but has increased the allocation slightly from Q3. The Eurozone witnessed a softening in headline inflation during the reporting period, owing to a decline in energy prices and weakening manufacturing data from Italy and Germany. The European Central Bank (ECB) paused its hiking cycle in Q3, having determined rates are likely at an appropriate level. Europe as a region is heavily exposed to the ongoing conflict in Ukraine, the energy crisis, and overall global macroeconomic pressures.

The AAC also maintains its underweight view on Asia Pacific markets (ex-Japan) as slowing global growth and sticky inflation continue to impact its economies. Chinese economic growth continued to disappoint, as soft consumption numbers and a growing youth unemployment rate have added to pressures. The U.S. Dollar weakened over the fourth quarter, acting as a headwind for Emerging Markets and while additional economic stimulus in China is expected the timeline and magnitude remain uncertain and support the AAC's current underweight view on the Asia Pacific region as it works through many structural challenges and frictions with the Western world. Hong Kong has also announced several measures aimed at bolstering the economy, however impairment risks related to falling property values make the forecast uncertain. Australian equities remain expensive on a relative basis; however, the lack of yield curve inversion signals the potential to avoid recession. Still, the economy remains sensitive to interest rates as consumers are exposed to variable-rate mortgages.

FIGURE 2: Equity Allocations



Source: AGF Asset Allocation Committee, December 31, 2023.

Benchmark: 16.5% S&P/TSX Capped Composite Total Return Index / 24.2% S&P 500 Total Return Index / 9.3% MSCI Europe Index / 3.5% MSCI Japan Index / 1.7% MSCI Pacific ex-Japan Index / 4.8% MSCI Emerging Markets Index

Fixed Income Allocation

The AAC maintains its underweight position on fixed income even as global economic growth softens, the pace of central bank tightening slows, and inflation-related data moderates. While the risk of a recession in 2024 has not gone away, the AAC believes that the risk has been deferred for the time being, as strong job growth has helped buoy consumer spending, and economic data has surprised to the upside in the U.S. In addition, still elevated inflation and resilient economic growth, coupled with bond yields that are well below central bank policy rates in anticipation of a rate cut cycle that may be more modest or deferred than expected, informed the AAC's underweight fixed income stance.

Global bond markets experienced a positive environment in the fourth quarter. Yields saw a pronounced decline following mild inflation readings and dovish comments from the Fed confirming that rate cuts are being discussed for 2024.

The AAC's allocation to U.S. high-yield bonds remained above neutral as the AAC anticipates markets will remain in a higher-for-longer environment which will remain conducive for coupon clipping in high-yield bonds. Avoiding recession should also help high yield issuers generate the cash flow necessary to support debt service payments.

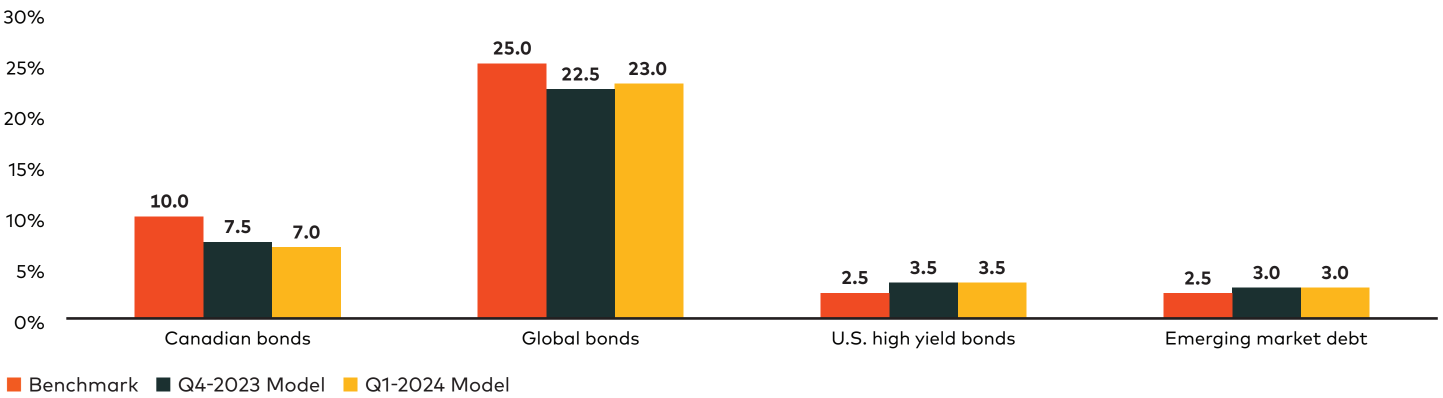
Emerging Market spreads came in over the fourth quarter, but the AAC expects them to widen slightly as growth slows, particularly if Chinese stimulus disappoints.

The outlook for EM bonds remains neutral with little preference between U.S. dollar-denominated and local currency bonds, as some EM central banks have already started cutting rates, while it remains to be seen if the Fed delivers on the market's expectations. EM central banks were quicker to raise rates relative to their DM peers, providing support to local currency bonds as rates come down. Conversely, back-tracking from Fed officials on the number of cuts expected this year could result in a stronger U.S. dollar and hurt the performance of local currencies, providing further support to the AAC's neutral outlook.

The AAC is underweight Canadian government bonds owing to unfavourable yield curve characteristics, high and persistent inflation, and central bank hawkishness. Other rate-sensitive categories including global sovereign and investment grade bonds remain underweight relative to the benchmark index as persistent inflation could result in further negative price action.

The AAC maintains a slight overweight to cash versus the benchmark, as cash continues to provide a cushion in the portfolio and helps shield it from the impact of volatility. Further, cash yields are higher as policy rates have moved higher and remain competitive compared to bond yields due to inverted yield curves. The AAC also remains open to the use of alternatives in the portfolios. Alternatives are included to enhance diversification and improve the risk-return profile.

FIGURE 3: Fixed Income Allocations



Source: AGF Asset Allocation Committee, December 31, 2023.
Benchmark: 10% Bloomberg Canada Aggregate Bond Index / 25% Bloomberg Global Aggregate Bond Index / 2.5% Bank of America/Merrill Lynch U.S. High Yield Master II Total Return Index / 2.5% JPMorgan EMBI Global Total Return Index

Q4 2023 Economic Recap

The global economic outlook saw further divergence in the 4th quarter, as the prospects of a soft landing in the U.S. continued to increase on the back of softer inflation numbers coupled with resilient economic growth, which prompted dovish comments from the Fed. The geographical divergence observed throughout the year continued, as the resilient economic data in the U.S was contrasted by slowdowns in the Canadian, European and Chinese economies.

Optimism early in the quarter was fueled by positive economic data in the U.S. and significant YoY progress on inflation. Adding to the market's confidence was a continued improvement of financial conditions as measured, for example, by the Chicago Fed National Financial Conditions Index (NFCI), which fell to its lowest level of the year in December, signalling a further loosening of conditions.

U.S. equity indices continued their upward trend in Q4, with the market putting on a significant rally as the prospect of a soft landing became more probable, and inflation continued to moderate.

Following a choppy start to the quarter which saw marginally negative performance for broad market indices throughout October, the market rallied into the end of the year following dovish comments from the Fed at the November meeting.

In the U.S., Real Estate was the top-performing sector during the quarter, followed closely by the Tech and Financials sectors, as measured by their respective indices. Sentiment around the Energy sector reversed from Q3 making it the worst performer, and the only sector to post negative performance, as worries over the demand/supply picture affected the price of oil.

As of the end of the 4th quarter, the divergence between the S&P500 Index and the S&P500 Equal-Weighted Index returns widened marginally, with leadership largely unchanged. The S&P500 Equal Weight index includes the same stocks as the capitalization-weighted S&P500, but each stock receives a fixed weight of 0.2%. The YTD divergence remained significant in Q4, with the market weight index outperforming by close to 13 percentage points versus the equal-weighted index.

U.S. Real GDP grew 4.9% YoY, and 1.2% QoQ in the third quarter according to the third estimate but was revised down by 0.3% from the second estimate. Consumer spending was the largest contributor to GDP in the third quarter but saw a significant downward revision from the second estimate of -0.5%, led by lower spending on services. The unemployment rate remained relatively rangebound throughout the year but ended the year higher at 3.7%, the highest level since the first quarter of 2022. Inflation fell to 3.1% YoY in November, representing the lowest reading since June, and has been following a downward trend which started in late Q2, as slower energy and commodity prices continued to provide support. Following a prolonged pause over recent months, the Fed's dovish comments in December indicated a higher probability that rates and inflation have peaked, setting up expectations for several rate cuts in 2024, to facilitate the targeted soft-landing scenario.

The Canadian economy contracted by -0.3% in the third quarter following an upward revision for 2nd quarter GDP as inventories and exports weighed on the data, while government spending increased. A leading contributor to the decrease in exports was refined petroleum products which decreased more than 25% QoQ. New housing construction increased in the third quarter after five consecutive quarterly declines, as several Federal policies aimed at improving housing availability were introduced. Canada's inflation profile witnessed a decline over the quarter; however, the November number came in at 3.1% representing no change from a month earlier, and higher than the projected 2.9%. After touching a low of 2.8% in June, inflation has slowly crept back up over the summer months, hitting 4% in August, but has come back down in recent months. Continued stickiness in underlying Food prices and increased shelter costs, as well as a boost in travel expenses attributable to events in the U.S have contributed to a higher-than-expected inflation print.

The Bank of Japan (BoJ) again left its policy unchanged over the quarter, as it reiterated its expectation that inflation will continue to moderate. Inflation dropped from 3.3% to 2.8% in November, as fuel prices fell, and food inflation was more subdued. The BoJ however offered clear hints in December that a shift in policy will be coming in 2024, causing the Yen to continue its rally vs the U.S. dollar, which had started in November.

In the Eurozone, economic activity remained sluggish as higher interest rates continued to impact industrial activity. German manufacturing data continued to disappoint with a larger-than-expected drop in November. Real wage growth has been positive, helping households grapple with the higher costs of living and interest rates, while fiscal spending has helped aggregate demand. The November rally extended valuations slightly, but a large amount of cash on the sidelines is likely to limit the potential downside.

The expectations for a Chinese economic recovery were built up and waned over the quarter due to a lack of meaningful follow-through on fiscal easing initiatives. Troubles in the property sector have led to a deflationary environment which has also been exacerbated by weak overall domestic consumption. As a result, investor positioning and expectations have remained low.

Emerging Market (EM) economies have shown relative strength compared to some DM markets, while inflation has been trending lower particularly in LATAM countries, prompting central banks in Brazil, Peru, and Chile to begin cutting rates in Q3. While these moves hurt the local currencies relative to the U.S. Dollar, bonds have rallied on positive economic activity and lower inflation.

Broadly speaking, the disinflationary trends from Q3 continued in Q4, with sharp decreases in energy prices driving the quarter-over-quarter inflation numbers lower. Inflation should continue to decelerate in the coming months as the cost of shelter comes down in the U.S., but we remain vigilant about the risk of a resurgence later in 2024. Potential drivers are base effects that will wear out and new geopolitical tensions that could disrupt fragile supply chains and oil markets. In addition, policymakers project that inflation will remain above target for the next few years, while the U.S. economy has shown surprising resilience in the face of higher rates, raising the prospects of a soft landing. As a result, despite a surprisingly dovish tone from the Fed in December, the timing of any potential rate cuts remains highly uncertain and data dependent.

20240311-3426086

AGF Asset Allocation Committee

The AGF Asset Allocation Committee is comprised of experienced investment professionals, specializing in various areas of the global bond and equity markets. Members provide insight into risks and opportunities, shaping the outlook of their respective asset class, which leads to an optimized asset allocation view. This top-down view guides the allocation decisions for certain AGF portfolios. Positioning described herein may not apply to all products or services offered by AGF.

AGF®

Invested in Discipline

For more information on the AGF Asset Allocation Committee visit AGF.com.

Publication date: March XX, 2024

FUND986 03-24-E

20240311-3426086