INVESTMENT SOLUTIONS GROUP

Capital Markets View

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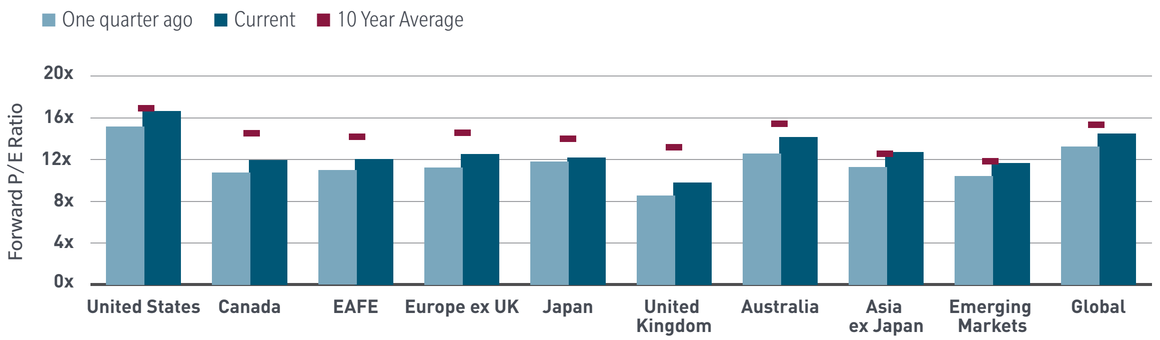
GLOBAL EQUITY SUMMARY

For the full story see page 3

After one of the most challenging calendar year performances since 2008, global equities are once again trading near historical average valuation levels. International developed equities, while down for the year, outperformed US equities, a feat they've not achieved since 2017. With inflation rates at multi-decade highs across developed economies, aggressive central bank action drove up interest rates around the world, resulting in a recalibration of valuations, particularly in US equities, down from the lofty levels of 2021. Corporate earnings in the United States were up about 5%, but a closer look at the sector level reveals that energy was the primary contributor to earnings growth. The same held true for performance, with energy up more than 50%, while information technology, consumer discretionary and communication services were all down more than 20%. Estimates for 2023 earnings growth remain elevated amid what is expected to be a slower-growth, higher-interest rate environment where companies will need to navigate both higher input costs and growing wage pressures. Increasing costs could lead to the erosion of profit margins if companies cannot pass them onto consumers, as they have been able to do so far. We continue to see this as an environment in which to defensively position portfolios with exposure to more value-oriented segments of the market where higher dividend yields can serve to cushion volatility.

Forward Price to Earnings



Source: Source: FactSet as of 31 December 2022. United States = S&P 500, Canada = MSCI Canada, United Kingdom = MSCI United Kingdom, Japan = MSCI Japan, Australia = MSCI Australia, Global = MSCI AC World, Europe ex UK = MSCI Europe ex-UK, EAFE = MSCI EAFE, Asia ex Japan = MSCI Asia ex Japan, Emerging Markets = MSCI Emerging Markets.

	SALES GROWTH (YOY%)		NET PROFIT MARGIN (%)		DIVIDEND YIELD (%)	
	Current	10-Year Average	Current	10-Year Average	Current	10-Year Average
United States	10.6	4.1	12.3	11.0	1.7	1.9
Canada	16.4	5.6	14.9	10.9	3.5	3.0
EAFE	14.1	2.1	9.6	7.4	3.5	3.2
Europe ex UK	13.1	2.3	9.7	7.6	3.4	3.2
Japan	14.8	2.5	6.8	5.4	2.7	2.2
United Kingdom	18.5	1.5	11.8	8.2	4.0	4.1
Australia	8.8	1.9	17.5	14.5	4.7	4.5
Asia ex Japan	11.2	6.7	9.5	9.5	2.7	2.5
Emerging Markets	13.4	7.1	10.6	9.6	3.4	2.8
Global	12.4	3.8	11.1	9.3	2.4	2.4

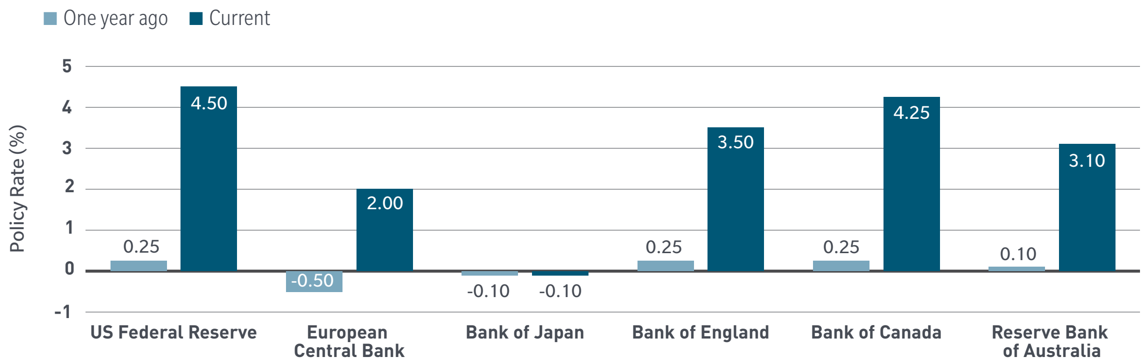
Source: FactSet as of 31 December 2022. Data shown are trailing (last twelve months). United States = S&P 500, Canada = MSCI Canada, United Kingdom = MSCI United Kingdom, Japan = MSCI Japan, Australia = MSCI Australia, Global = MSCI AC World, Europe ex UK = MSCI Europe ex-UK, EAFE = MSCI EAFE, Asia ex Japan = MSCI Asia ex Japan, Emerging Markets = MSCI Emerging Markets.

GLOBAL FIXED INCOME SUMMARY

For the full story see page 7

In a sign of how far markets have come in a year, negative yielding debt, the value of which reached $18 trillion in mid-2021, has all but disappeared, with fixed income finally offering investors meaningful carry across almost all segments of the market. Persistently high inflation has been countered by stubbornly hawkish central bank action, with even the Bank of Japan taking modest steps toward normalizing monetary policy. The top of the target range for the fed funds rate, at 4.5%, is far above what markets were expecting a year ago when the US Federal Reserve laid the groundwork for tighter policy. After raising so far, so fast, the Fed, and other central banks, may be nearing the end of their hiking cycles. Credit spreads widened but have been relatively well behaved in a market where there were several bouts of equity volatility. Investment-grade credit spreads ended the year at around 160 basis points and high yield spreads near 470 basis points. The combination of higher rates and wider credit spreads has brought value back to fixed income, a welcome development for bond and multi-asset investors. In addition, after a year of positive correlation to equities, we believe that fixed income, particularly investment-grade corporate and high-quality municipal bonds, will once again provide diversification benefits to multi-asset portfolios. While there are signs that an economic slowdown is on its way, with many yield curves inverted and leading economic indicators turning negative, higher starting yields and the potential for central banks to pause help make a solid case for fixed income.

Central Bank Policy Rates



Source: FactSet as of 31 December 2022.

	YIELD TO MATURITY (%)		DURATION (YEARS)	
	Current	10-Year Average	Current	10-Year Average
US Treasuries	4.2	1.7	6.1	6.2
Global ex US Sovereigns	3.1	1.3	7.0	7.5
Emerging Markets Debt	7.8	5.8	6.9	7.3
Global Investment Grade	5.2	2.7	6.1	6.6
Global High Yield	9.4	6.6	4.1	4.2
US Municipal Bonds*	3.6	2.2	6.2	6.2

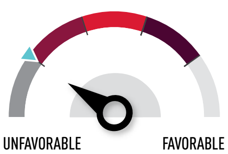
Source: FactSet as of 31 December 2022. US Treasuries = Bloomberg Barclays US Aggregate Government Treasury Index, Global Sovereigns ex US = Bloomberg Barclays Global Aggregate ex US, Emerging Market Debt = JP Morgan EMBI Global, Global Investment Grade = Bloomberg Barclays Global Aggregate Corporate, Global High Yield = Bloomberg Barclays Global High Yield, Municipal Bond = Bloomberg Barclays US Municipal.

*yield to maturity unavailable for the municipal bond, so yield to worst is shown instead.

OUTLOOK	EQUITY INSIGHTS	LONG-TERM VIEW

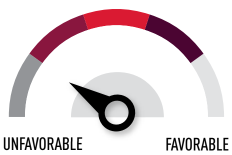
UNITED STATES

Outlook:



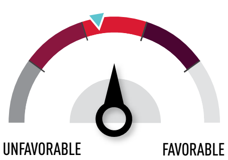
- The S&P 500 Index closed above the year's worst levels but declined nearly 19.5% in 2022. The US economy proved more resilient than many expected last year, but markets anticipate a recession taking hold this year or early next. While inflation has likely peaked, it is expected to hold stubbornly above the US Federal Reserve's 2% target for the next several years.
- As the labor market cools only gradually and the participation rate remains low, upward wage pressures are expected to persist.
- Rate-sensitive groups such as housing and autos were hit hard in 2022, as were richly valued tech stocks.
- A series of significant (11% to 17%) bear market rallies played out during 2022; the most recent — from October through early December — faltered amid renewed hawkish rhetoric from the Fed.
- Stripping out the contribution from energy, S&P 500 earnings contracted 5% year over year in the most recent quarter, and we suspect earnings estimates remain too high.
- At 16.7x next-twelve-months (NTM) earnings, P/E is a touch rich, especially amid concerns over earnings. Elevated margins, at 12.3%, appear vulnerable due to waning pricing power and rising labor costs.

Long-term view:



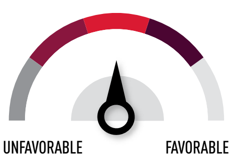
CANADA

Outlook:



- The Canadian economy continues to charge forward, steadily adding jobs through December in an extremely tight labor market, giving the Bank of Canada cover to continue with rate hikes.
- Monetary policy tightened dramatically during 2022, with the policy rate ending the year at 4.25%, up from 0.25% at the start, while the central bank continues quantitative tightening.
- Although there was some moderation in the price of energy, a key export for Canada, GDP remained stronger than expected throughout the year.
- Housing remains a key concern for the country, however, considering the variable nature of Canadian residential mortgages. Higher mortgage rate resets could further weigh on households, which are already dealing with the highest inflation in decades.
- Owing to their significant exposure to the energy sector, Canadian equities fared better than those in the United States and most other developed markets, dropping only around 5% on a total return basis in 2022.
- Valuations are compelling, with Canadian equities trading at a mere 12x NTM, below the 10-year average of 14.7x. However, profit margins remain elevated at 15%, relative to the 10-year average of around 11%.

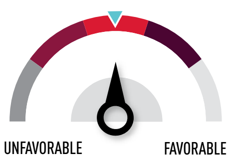
Long-term view:



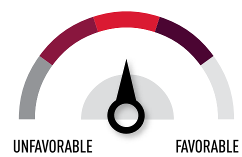
KEY: October '22 January '23

OUTLOOK	EQUITY INSIGHTS	LONG-TERM VIEW

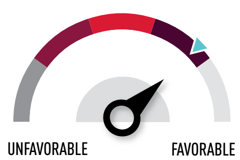
EUROPE EX UK



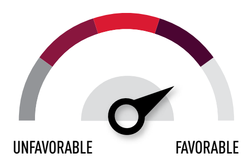
- Economic optimism vis à vis Europe replenishing its natural gas supplies ahead of winter helped spark a significant bear market rally from September through early December, but a hawkish European Central Bank halted the advance late in the year. For 2022, the MSCI Europe ex UK index fell 14.5%.
- Increased imports of liquified natural gas and China's loosened COVID restrictions were late-year macro tailwinds. Despite the challenges posed by the relative scarcity of energy, the eurozone economy has proven surprisingly resilient.
- A downtick in inflation from 10.6% to 10% in November helped raise hopes that prices in the eurozone have peaked, though the hawkish December ECB meeting saw a material upside repricing of the central bank's terminal rate.
- European earnings have held up better than those in the US. Even after stripping out energy's outsized contribution, only two sectors (financials and materials) reported year-over-year declines in Q3. As in the US, earnings estimates have been revised downward modestly in recent months while the tailwind to earnings from a weak exchange rate has waned.
- In Q4, valuations recovered after falling to their lowest level in more than a decade in September. They bounced from around 11x NTM to trade at 12.5x at year-end. The 10-year average is 14.7x.



UNITED KINGDOM



- UK equities continue to outperform their developed market peers by a wide margin, rising 3% in 2022.
- With political turmoil having receded and inflation having potentially peaked amid government- imposed energy price caps, fewer Bank of England rate hikes are expected compared with a quarter ago.
- The economy is projected to contract by about 1% in 2023 as the combination of high energy prices and soaring mortgage rates is constraining discretionary spending. However, the UK market's overseas focus and surprisingly resilient global growth (with a late assist from a tentative reopening in China) is supporting equities.
- At the index level, energy earnings account for nearly all the 60% year-over-year EPS growth registered in Q3 while financials were a net drag. Though the pound has recovered some of the extreme weakness of early fall, it remains quite weak from a long-term perspective, potentially making UK multinationals more competitive.
- Valuations have corrected some of their recent declines, bouncing from early October lows of 8.5x NTM earnings to 9.8x as of December 16, but they remain well below the 13.3x 10-year average.



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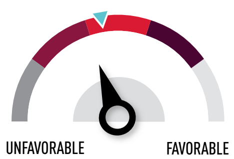
OUTLOOK | **EQUITY INSIGHTS** | **LONG-TERM VIEW**

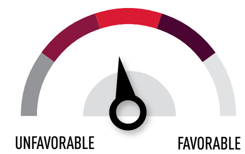
JAPAN

OUTLOOK:



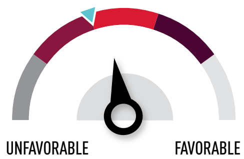
- While Japan outperformed its developed markets peers by a wide margin, it may be losing two strong tailwinds to performance: an extraordinarily weak yen and historically low interest rates.
- Intervention by the Bank of Japan to stem currency weakness, which exacerbated import price inflation, helped spark a 14% slide in the USD/JPY exchange rate between late-October and the end of 2022. The stronger currency has a negative impact as companies' overseas earnings are translated back into yen.
- Additionally, in late December, the BOJ widened its yield curve control band, allowing the yield on 10-year government bonds to rise from the former cap of 0.25% toward the top of the new lid at 0.5%. Some see the move as the first step toward the central bank normalizing its extraordinarily loose monetary policy. With BOJ Governor Haruhiko Kuroda slated to retire in April, investors fear that he will be replaced by a more hawkish leader.
- China's economic reopening is a potentially supportive factor for Japanese exporters if demand in that country rebounds upon reopening as it has in most other regions.
- At 12x forward earnings, Japanese shares trade not far from their cheapest levels of the past decade.

LONG-TERM VIEW:



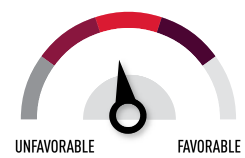
AUSTRALIA

OUTLOOK:



- Australia was a relatively strong performer compared with most developed markets, declining only 3.2% in 2022 after rallying around 9% from the low for the year in the fourth quarter.
- The interest rate–sensitive Australian economy is showing signs of slowing as the Reserve Bank tightens policy to get inflation back under control. Investors are hopeful that price pressures have already peaked and that the tightening cycle is within a few quarter-point hikes of ending.
- While a strong labor market and solid consumer spending supported the economy in 2022, a rapid rise in mortgage rates and higher living costs are expected to take a toll on consumption in 2023. A decline in residential real estate prices could produce a reverse wealth effect.
- The energy, materials, utilities and financial sectors were Australia's strongest performers over the past year while real estate, information technology and consumer discretionary were laggards.
- From a valuation perspective, at 14.2x next year's earnings estimate, Australian shares trade slightly below the 10-year average of 15.6x.

LONG-TERM VIEW:



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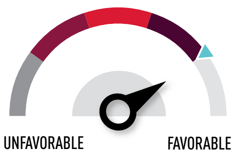
OUTLOOK	EQUITY INSIGHTS	LONG-TERM VIEW

OUTLOOK



EQUITY INSIGHTS

EMERGING MARKETS

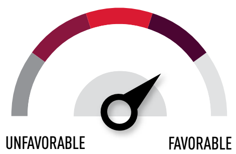
Asia ex Japan

- After underperforming developed markets for much of 2022, the prospect of China's economic reopening saw stocks in the region surge late in the year. For the calendar year, performance was on par with developed markets, registering a loss of 16.7%.
- The reopening — which comes ¬in response to large-scale protests against nearly three years of lockdowns, along with an increased focus on rejuvenating economic growth on the part of the government, particularly by supporting the pivotal property sector — has raised hopes that pent-up demand will be released. From a global macro perspective, it is hoped the country's reopening will ameliorate sluggish growth in developed markets resulting from their fight against inflation.
- While global supply chains have begun to normalize, demand for semiconductors has slumped after a pandemic-inspired pull forward of demand and a decline in global growth. As a result, chip-centric Taiwan fell just over 25% in 2022. Similarly, Korea declined nearly 27%.
- India was the standout performer in the region, managing to gain 1.6% amid robust economic growth, a growing middle class and companies looking to shift some of their production to India from China. However, Indian valuations appear stretched.
- For the region as a whole, valuations are in line with the 10-year average of 12.7x, having corrected a decline to around 12.8x NTM recorded as the market bottomed in October.

EMEA and Latin America

- Despite strong energy markets for much of 2022, this region's heavy concentration in financials saw the MSCI EM Europe, Middle East and Africa index decline just over 23%. At 10x forward earnings, valuations are in line with their 10-year average.
- Commodity exporters such as Brazil, Mexico and Chile helped the MSCI EM Latin American index outperform developed and most emerging markets handily in 2022, declining only 0.1%. Valuations are in line with their 10-year average of 7.4x next year's earnings estimate.

LONG-TERM VIEW



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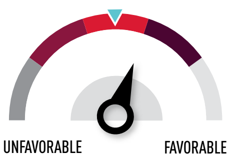
OUTLOOK	FIXED INCOME INSIGHTS	LONG-TERM VIEW

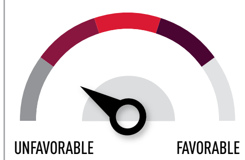
US TREASURIES

Outlook:



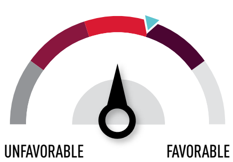
- With the Fed likely nearing the end of its hiking cycle, the worst of the pain of rising rates appears to be behind us. Whether or not the Fed reaches its expected terminal rate and holds on, the impending end of the hiking cycle suggests that rates across the US Treasury curve could be close to peaking. We see scope for rates to fall in 2023, though the extent of the rally may be tempered if the Fed stands fast.
- Encouraging signs of easing core inflation suggests that the Fed may be realizing its goal of restraining rising prices, but if the labor market remain strong, inflation could remain "sticky," potentially preventing the central bank from bringing it down to a satisfactory level over the next 12 months.
- In order for the Fed to dampen demand, financial conditions need to tighten; however, on balance, they eased over the fourth quarter as stocks rose, bond yields fell and the dollar weakened. Maintaining a degree of hawkishness will be important in keeping financial conditions relatively tight until inflation has fallen sufficiently.
- With quantitative tightening under way, the market has lost the support of a large, price-insensitive buyer. But the prospect of a looming recession suggests the potential for a flight-to-safety bid for Treasuries.
- Treasury market valuations have improved markedly due to the Fed-induced 2022 rate selloff setting the market up for better prospective total returns.

Long-term view:



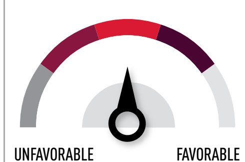
AGENCY MORTGAGE-BACKED SECURITIES

Outlook:



- The balance of technical factors for the asset class remains negative but is unlikely to worsen, though there remains a technical risk, albeit minimal, that as the Fed unwinds its balance sheet it could turn to outright sales of MBS rather than merely allowing holdings to roll off. In addition, banks — the second-largest source of demand — are also less inclined to buy MBS as deposit growth slows or reverses, loan growth continues and cash buffers are bolstered. Foreign buyers have also been sidelined by high FX hedging costs but could become more interested if dollar weakness continues and FX hedging costs fall.
- Valuation is close to fair value, especially against the backdrop of slightly lower but still elevated rate volatility.
- With the looming prospect of recession, we think MBS spreads — like those of other spread product — are susceptible to widening. However, any fundamentally driven widening is likely to be of lesser magnitude than in the credit markets, suggesting room for relative outperformance versus credit.

Long-term view:



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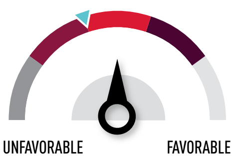
OUTLOOK	FIXED INCOME INSIGHTS	LONG-TERM VIEW

OUTLOOK

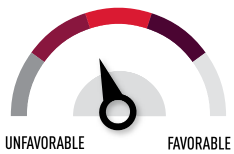


FIXED INCOME INSIGHTS

GLOBAL EX US SOVEREIGNS

- In Q4, non-US sovereigns underperformed the US as the ECB adopted a markedly hawkish tone and the Bank of Japan widened its 10-year JGB yield band, prompting investors to speculate that it might soon prepare the markets for an end to its ultraloose monetary policy. Accordingly, we would remain defensive.
- We like dollar-bloc countries such as Canada that are at a mature stage of their tightening cycles and have economies that are sensitive to tightening monetary conditions due to higher household leverage or inflated real estate values. We think the central banks of those countries could pause earlier than the Fed, leading to outperformance.
- We suggest a defensive posture toward European bonds and expect a flatter yield curve seeing as the ECB might need to tighten rates more and maintain higher rates longer than markets expect to sustainability control inflation. Additionally, we are concerned about how vulnerable Italy's bond market is to a reduction in the ECB's balance sheet and rising rates. Given these risks, we continue to prefer other expressions of European periphery risk such as Greece.
- We have turned more positive toward UK bonds following the revised budget, which stabilized both the currency and bond markets. The market continues to price an aggressive rate-hiking path for the Bank of England that we feel is too aggressive given huge downward pressure on consumer spending due to lower real wages and higher mortgage costs. Marking a sharp reversal of fortunes, UK bonds were the best-performing developed bond market in Q4.
- Despite being quite attractive on a hedged-to-USD basis, we are defensive on Japanese bonds because of the uncertainty surrounding future monetary policy given the expected appointment of a new BOJ governor in April. We also think Chinese bonds are expensive and have yet to price in improved economic prospects stemming from the relaxation of restrictive COVID policies.

LONG-TERM VIEW



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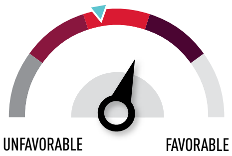
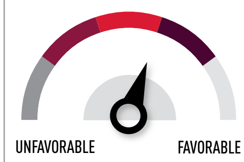
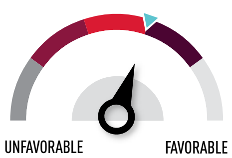


EMERGING MARKETS

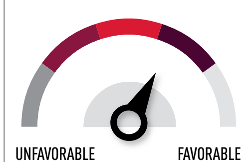
- The outlook for emerging markets has brightened somewhat as signs of peak inflation and a downshift in monetary tightening have offered some respite to risk markets. Moreover, EM currently benefits from a supportive technical backdrop of limited supply and relatively defensive investor positioning.
- China's reopening prospects as well as a comprehensive rescue package for the property development sector represent potentially important steps forward for the country's economy. That said, these steps could prove to be too little too late, and the growth trajectory in China in early 2023 is likely to be subdued.
- The most rapid Fed hiking cycle in the past 40 years raises the risk of a US recession this year while Europe continues to grapple with natural gas shortages, high inflation and an increasingly recessionary backdrop. These downside risks to global growth will likely lead to downward pressure on risk appetite and require diligence in differentiating among credits.
- While compensation for credit risk is average, we feel fundamentals are above average: foreign exchange reserves are higher than during other prerecessionary periods, exchange rates are more flexible and many emerging markets are well-positioned from a credit perspective.
- We believe that the current EM local debt cycle is about to enter a stage typically associated with potentially robust performance and believe this asset class will continue to gain traction over the next 12 months.





GLOBAL INVESTMENT-GRADE CORPORATES

- Spreads tightened in late 2022 as easing US inflation pressures bolstered hopes of an end to the global monetary tightening cycle in the coming months. European investment-grade bonds significantly outperformed their US peers despite a hawkish ECB, helped by declining European energy prices and outperformance by the banking sector.
- UK credit recovered as the government of Rishi Sunak reversed many of the unfunded tax cuts put forward by the short-lived prior government.
- Despite the rally, investment-grade bonds remain attractive. with spreads at recessionary levels, particularly in Europe.
- While a recession would inevitably lead to higher leverage and declining margins, leverage has declined since the COVID reopening and investment-grade companies benefited from a strong wave of debt issuance in 2020 to 2021 at attractive funding levels.
- We continue to favor financials over industrials as financials, in our view, are better insulated from an economic slowdown, having built up significant capital buffers.



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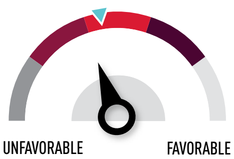
OUTLOOK | **FIXED INCOME INSIGHTS** | **LONG-TERM VIEW**

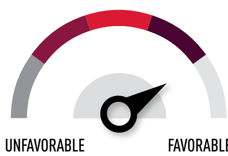
GLOBAL HIGH-YIELD CORPORATES

Outlook:



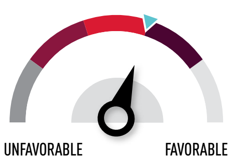
- Fundamentals remain strong relative to similar points in past credit cycles as companies have used their robust access to capital markets to extend maturities and enhance liquidity. Within high yield, we see fewer of the excesses of past cycles, with much of that activity having shifted to the leveraged loan and private credit markets. Thus, the asset class is positioned to weather a potentially rocky macro environment.
- Earnings momentum decelerated during 2022, especially in interest rate–sensitive sectors such as homebuilders, building products and mortgage servicers, and we believe there will be a broader fundamental deterioration in 2023 as the impacts of higher interest rates are felt.
- Particularly within the lower credit quality cohort, a combination of declining cash flows, higher interest costs and limited access to financing could have a negative impact.
- We believe current valuation levels warrants caution. Index spread levels are tighter than in past recessionary periods. While the distress ratio has increased, it remains well below past cyclical peak levels and is concentrated in structurally weak industries such as retail. In our view, default rates will increase from low-to-mid-single digits in 2023. A key risk to a more severe default cycle would be a prolonged period of restrictive monetary policy.
- From a regional perspective, we view European valuations more favorably than those in the US due to easing energy-price pressures in Europe. We view emerging markets less favorably given the greater sensitivity of those bonds to global growth and the negative impact of a strong US dollar.

Long-term view:



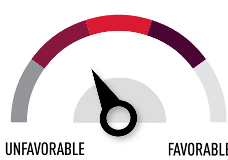
US MUNICIPAL BONDS

Outlook:



- In the tax-exempt market, municipal yields fell, returns rallied and outflows eased during the fourth quarter. At the start of 2023, US Treasury/muni ratios were fair-to-rich on a historical basis, yet absolute yields remained among the most attractive in a decade. The technical backdrop is typically supportive early in calendar years, with demand elevated by reinvestment and subdued supply.
- In the taxable market, US Treasury yields decreased (with the exception of the front end), and taxable muni spreads were relatively stable, resulting in strong performance. Taxable muni absolute yields remained near multiyear highs and compared favorably to corporates on a like-for-like-quality basis. Supply is expected to fall further in 2023, driven by fewer refinancings.
- Fundamentals are strong across the muni market following years of economic growth and federal stimulus during the pandemic. While default rates should remain low, isolated areas of weakness such as lower-quality hospitals stressed by labor cost pressures, may be expected.
- With attractive absolute yields, a high-quality profile, low default rates and solid fundamentals, munis appear to be relatively well positioned entering a period of slower economic growth in 2023

Long-term view:



KEY: ▼ October '22 January '23

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The Current Outlook and Long-Term View illustrations include return and risk expectations for equity, fixed income and alternative asset classes across country, regional and global markets. The focus of these illustrations is to provide a strategic, long-term, current and forward-looking view of various global markets. We use a proprietary top-down approach by employing quantitative, country-based models as the foundation for our expectations and then integrating bottom-up fundamental views from our global equity and fixed income investment teams to inform our final expectations.

Our expectations are developed across 26 countries comprising 18 developed countries and 8 emerging market countries.

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