



The ever-serial monogamist global financial markets have found a new obsession to dote upon: timing central bank rate cuts. Everywhere you look, commentary is focused on minute-by-minute inflation reassessments and central bank communique tea leaf reading. Asset prices have been highly reactive to inflation and inflation-tangential data releases; with volatility spiking up whenever consensus expectations are even modestly deviated from. As usual, it pays to take the short-term “noise” in stride and focus our investment team’s energy on the bigger picture views.

When the collective market fear last year was imminent recession, positive or resilient economic data was viewed constructively. Good news was good news. Yet, now with high hopes for interest rate cuts, a strong or improving economy is viewed unfavourably. Good news is bad news. But is this the right way of looking at it?

Our view is that interest rate cuts would certainly be a welcome development but have been widely overhyped. This is understandable, as investors have become so accustomed to the ultra-low interest rates of the 2010s. Expectations of a rapid rate cutting cycle this year were always going to have to be scaled back, as inflation serenely reverting back to the 2% target was never realistic. Recent “sticky” inflation releases confirm this view.

But are interest rates the whole story? What matters most for stock markets is corporate earnings. We believe they will still be well supported in a period

of above average nominal growth, inflation, and yes, even interest rates.

The corroborating evidence is beginning to mount in favour of this view. We’ve noted the impressive resilience of the US economy in numerous recent publications. But leading economic indicators have also turned up in nations with frothy housing markets, over-leveraged households and a prevalence of variable rate or short reset fixed-term mortgages such as Sweden, Australia and Canada. And this without a single rate cut amongst them. This is a promising signal for global growth, as even the most interest rate-sensitive economies appear to be turning the corner.

Broadening global economic activity should help broaden investment performance, which was narrowly concentrated in US mega-cap equities last year. Already, bull markets have begun to take hold in a diverse collection of global markets including Japan, Brazil, Italy, Denmark and India to name a few. As risk appetite continues to steadily return, we expect more asset classes to join the fray. We outline our key investment strategy positioning and notable changes on the following page.

## CASH AND CURRENCIES

### Staying fully invested

- Investors' rush to cash is diminishing, with surveys showing institutional cash levels returning to historical norms.
  - However, money market fund assets remain near all-time highs, suggesting there is still plenty of “dry powder” sitting on the sidelines which can be deployed into equities, fixed income and other risk asset classes.
  - We remain near fully invested with cash at neutral levels in client portfolios.
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## GLOBAL EQUITIES

### Maintaining equity overweight

- Market breadth is broadening out alongside bottoming global economic momentum after a year of concentrated market leadership in the US.
- As risk appetite continues to improve, we expect emboldened investors to deploy cash further afield.
- We remain overweight equity exposure this quarter.

### Adding US mid-cap exposure

- We continue to opt for tactical US equity positions which reduce exposure to US mega-caps, given their inherent froth and vulnerability to a shift in leadership.
  - US mid-cap equities provide an attractive means to do so, with an industrial-centric sector allocation, ebbing refinancing risk and less demanding valuations.
  - Accordingly, US mid-cap equities have been added to balanced and growth-oriented strategies this quarter.
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## GLOBAL FIXED INCOME

### Keeping fixed income exposure underweight

- Our expectations for a combination of above average inflation and nominal growth would not be conducive to a meaningful fall in bond yields.
- Furthermore, global asset managers are already heavily overweight bonds, while government issuance continues at a very brisk pace (particularly in the US).
- Fixed income exposure remains underweight in client portfolios.

## Overweight EM debt

- Emerging markets bonds have been incredibly resilient through the recent monetary tightening cycle, illustrating the vastly improved economic and financial policy frameworks implemented since the Asian financial crisis nearly 3 decades ago.
  - Despite relatively tight spreads versus developed market bonds, EM debt should continue to benefit from falling interest rates, improving domestic growth conditions and a revival in investor interest after 2 years of foreign investor outflows.
  - We remain overweight EM debt exposure this quarter.
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## OPPORTUNITY INVESTMENT HIGHLIGHTS

### Initiating Swedish equity exposure

- Sweden has had a tough few years on multiple fronts. The housing market has experienced a sharp downturn, as not only are Swedish households highly indebted, but floating rate (or short-term) mortgage loans are prevalent, making the impact of higher rates more acute. Simultaneously, Germany (Sweden's top export destination) has been in a manufacturing slump, which has weighed on the domestic industrial sector.
- The tide appears to be turning, as house prices have formed a bottom, leading manufacturing indicators are perking up, and banks remain well-capitalized and provisioned, despite the recent challenges.
- Add that Sweden's currency remains competitive vs. the euro and elevated household interest rate sensitivity will become a boon once the Riksbank begins to loosen monetary policy, and Swedish equities offer a compelling opportunity. We have initiated a position in balanced and growth-oriented strategies this quarter.

### Liquidating natural gas equities

- Natural gas remains attractive as a clean-burning "bridge fuel" that the world will rely on as countries transition towards cleaner energy sources.
- However, in the near-term, we see risks tilted to the downside, as European inventories are near capacity and US production continues to surprise on the upside.
- We are liquidating exposure to natural gas equities and will be on watch for a more attractive re-entry point.

INVESTMENT STANCE	Versus Benchmark			Changes from previous quarter
	Under	Neutral	Over	
<b>NET GLOBAL ASSET MIX</b>				
Cash		⬇️		⊖ Unchanged
Total Equity			⬇️	⊖ Unchanged
Total Fixed Income	⬇️			⊖ Unchanged
Opportunity		⬇️		⊖ Unchanged
<b>CANADA INVESTMENTS</b>				
Bonds		⬇️		⬇️ Decreased
Stocks			⬇️	⊖ Unchanged
<b>U.S. INVESTMENTS</b>				
Bonds		⬇️		⬆️ Increased
Stocks	⬇️			⬆️ Increased
<b>INTERNATIONAL INVESTMENTS</b>				
Bonds		⬇️		⊖ Unchanged
Stocks			⬇️	⬇️ Decreased

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