Monthly Macro & Strategy

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Highlights

- Central banks in North America and Europe are dealing with sticky inflation and bank turmoil at once, making their jobs even more difficult
- Quantitative tightening and flows towards money market funds are putting pressure on banks balance sheets, creating risks of liquidity incidents in some asset classes
- While central banks can put temporary mitigation solutions in place to support financial stability, we believe central bankers will likely be forced to adjust their stance

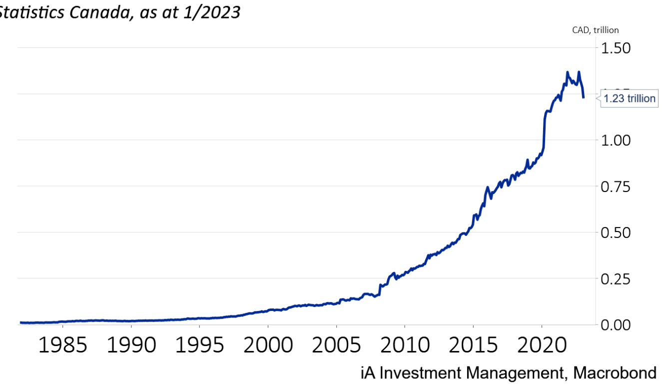
Can we have price stability AND financial stability in 2023?

Well, how quickly things change.

Last month's focus was squarely on the still-too-hot economy and how it was most likely making inflation stickier for longer. But things quickly took a turn toward financial stability risks in March, leaving central banks in a tough spot. Hindsight is always 20/20, but the latest Annual Report[1] of the Board of Governors of the Federal Reserve System, covering 2021 (the reports are published in July) shows that the Fed had been aware for a more than a year of the interest rate risks to the balance sheets of the U.S. banking sector.

Canada: Deposits at Chartered Banks

Statistics Canada, as at 1/2023



In simple terms, with the authorities' massive fiscal and monetary responses to the pandemic, banks around the world found themselves flush with deposits, which they then invested in long-term products, such as loans and long-dated Treasuries. But, with one of the most aggressive tightening cycles in the history of central banks then pushing the whole yield curve higher (short-term rates even more so), some U.S. banks started to have liquidity issues.

Global Asset Allocation Views (April 2023)

	--	-	N	+	++	Δ
Asset Classes						
Money Market				■		
Fixed Income				■		
Equities		■				
Alternatives			■			
Relative Equity						
Canadian Equities			■			
U.S. Equities	■					
International Equities			■			
EM Equities			■			
Relative Fixed Income						
Government Bonds					■	
IG Corporate Bonds				■		
HY Bonds	■					
Other						
Oil				■		
Gold			■			
USD (trade weighted)				■		
CAD/USD			■			

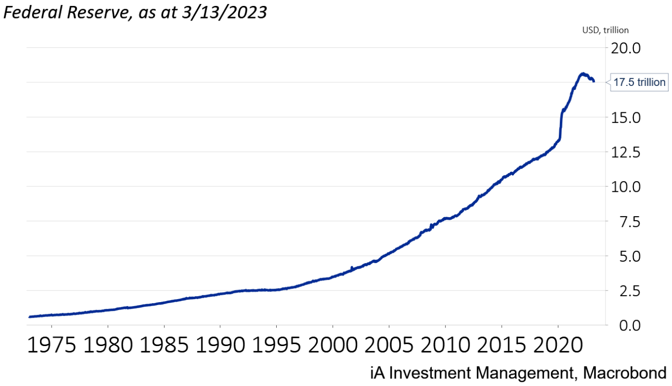
Higher long rates mean that long-maturity assets, such as Treasuries and loans (remember that, in contrast to Canada, where most mortgages have a term of 5 years, U.S. mortgages tend to be of the 30-year fixed-rate variety) must be marked-to-market, which was enough to scare off some depositors at the now infamous Silicon Valley Bank (SVB) and led to the first

[1] https://www.federalreserve.gov/publications/annual-report.htm

bank run on U.S. soil since the Great Financial Crisis. We note that even though the recent jump in variable-rate mortgages in Canada has put some households in a delicate position, it can be argued that shorter mortgage terms contribute to the resilience of the Canadian banking sector.

U.S.: Deposits at Commercial Banks

Federal Reserve, as at 3/13/2023



Since SVB's rapid downfall, the Fed, the Treasury and the FDIC have put in place multiple emergency measures to contain the risks of illiquidity, with some success for now. But the situation was fluid at month-end; by definition, human nature tends to be unpredictable, especially when a household's life savings or a business's cash funds are at stake.

Even so, the major central banks have sent strong signals in recent weeks: the fight against inflation still rages on (see last month's piece for more details about the need to maintain a hawkish stance), and monetary policy needed, at least until now, to be tightened further. Jay Powell and Christine Lagarde are convinced they can take care of financial stability using the other tools at their disposal.

We question whether this assertion holds when financial instability is fundamentally due to the current combination: 1) the speed and vigour of the ongoing hiking cycle; 2) quantitative tightening; 3) banks still flush with unwanted deposits; 4) the serious competition that money-market funds offer savings accounts; and 5) the presence of the Fed's reverse-repo facility. Let's take a deeper look.

More U.S. banks could face liquidity issues

SVB's recent issues may have been idiosyncratic to its business model (and atrocious risk management, which will assuredly furnish textbook material for generations to come), but U.S. banks should continue to face structural deposit outflows for a sustained period. Unfortunately, before all is said and done, it's likely that more of the country's 4,550 regional banks will fail, be acquired or be forced to merge.

Indeed, a recent NBER paper[2] suggests that multiple U.S. banks would be at risk of impairment if their deposits came under sustained pressure for any reason.

According to the authors: "…even if only half of uninsured depositors decide to withdraw, almost 190 banks are at a potential risk of impairment to insured depositors, with potentially $300 billion of insured deposits at risk. If uninsured deposit withdrawals cause even small fire sales, substantially more banks are at risk. Overall, these calculations suggest that recent declines in bank asset values very significantly increased the fragility of the US banking system to uninsured depositor runs."

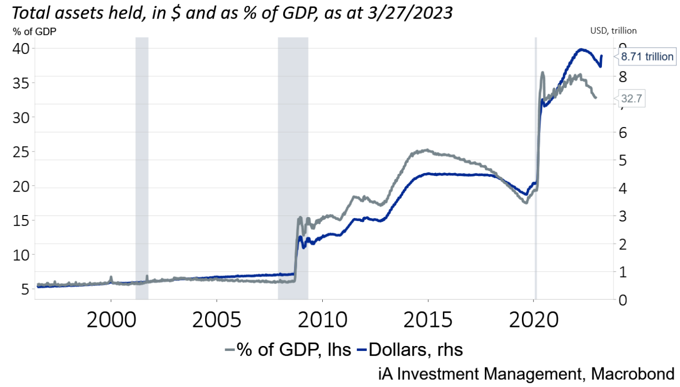
The authorities' recent measures to provide liquidity to banks and the talk of extending deposit insurance protection to most, if not all, deposits certainly helped lower the odds of more bank runs. But this doesn't mean that the pressure on deposits is off.

Bank run or not, deposits remain under pressure from quantitative tightening

First, by buying multiple types of assets in response to the COVID-19 pandemic, the quantitative easing (QE) programs of 2020 were different from the 2008 program and, therefore, created new risks. For example, the Bank of Canada purchased[3] assets such as Canada Mortgage Bonds, commercial paper, banker's acceptances, corporate bonds, and federal and provincial government debt. The Fed, of course, purchased Treasuries and agency-backed mortgage securities.

Federal Reserve: Size of Balance Sheet

Total assets held, in $ and as % of GDP, as at 3/27/2023



The purchases were intended to encourage spending and investment, and they succeeded. Any household or business spending eventually finds its way into someone else's bank account; so, the direct impact was to bloat the deposits at commercial banks. In fact, bank deposits jumped by $4.5 trillion in the United States from early 2020 to mid-2022, roughly in line with the growth of the Fed's balance sheet.

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2 https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4387676

3 https://www.bankofcanada.ca/2020/08/our-covid-19-response-large-scale-asset-purchases/

How central bank accounting works*

Central banks do not literally print money when they carry out quantitative easing. What they do is create central bank reserves, which are simply deposits into commercial banks' accounts at the central bank.

Let's look at an example.

Suppose the Fed purchases $1 billion in U.S. Treasury securities (UST) on the open market as part of its quantitative easing program. The balance sheets of the Fed, of the investor selling the security and of the commercial bank servicing the investor will be affected as follows:

Assets	Liabilities
Federal Reserve's balance sheet (Buys UST from investor)	
+$1G UST	+$1G reserves
Commercial bank's balance sheet (Settles payment to investor on behalf of Fed)	
+$1G reserves	**+$1G deposits**
Investor's balance sheet (Receives deposits in exchange for UST)	
-$1G UST **+$1G deposits**	

Thus, $1 billion of quantitative easing creates an equivalent $1 billion of bank deposits.

Now, when central banks shift their policy to quantitative *tightening*, the reverse happens, and deposits are erased. To illustrate the point, let's suppose the Fed is simply letting its Treasury holdings mature and does not actually sell its assets outright in the open market.

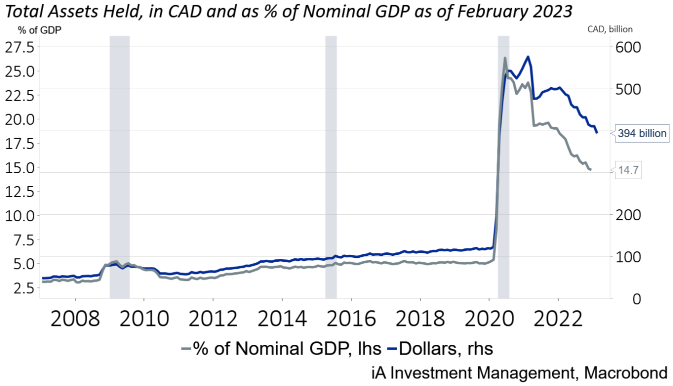
Assets	Liabilities
Treasury (Issues new UST to repay old UST)	
+$1G reserves -$1G reserves to Fed	+$1G UST due to Investor -$1G UST repaid to Fed
Federal Reserve (Receives repayment and extinguishes old UST)	
-$1G UST	-$1G reserves
Commercial bank (Settles payment to Treasury on behalf of investor)	
-$1G reserves	**-$1G deposits**
Investor (Buys new UST with deposits)	
+$1G UST **-$1G deposits**	

*Examples quoted from https://fedguy.com/quantitative-tightening-step-by-step/

The picture is similar in Canada, although the amount is smaller by a factor of 10, at $450 billion.

Bank of Canada: Size of Balance Sheet

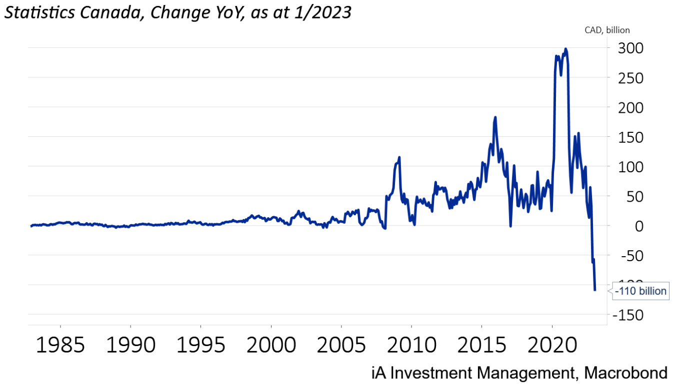
Total Assets Held, in CAD and as % of Nominal GDP as of February 2023



Banks found themselves flush with cash and obliged to invest the money. With the banks facing unprecedented cash inflows, the Fed opted to tweak its Supplementary Leverage Ratio (SLR), stopping the historic boom in banks' balance sheets from forcing them to comply with ever-growing capital needs.

Canada: Deposits at Chartered Banks

Statistics Canada, Change YoY, as at 1/2023



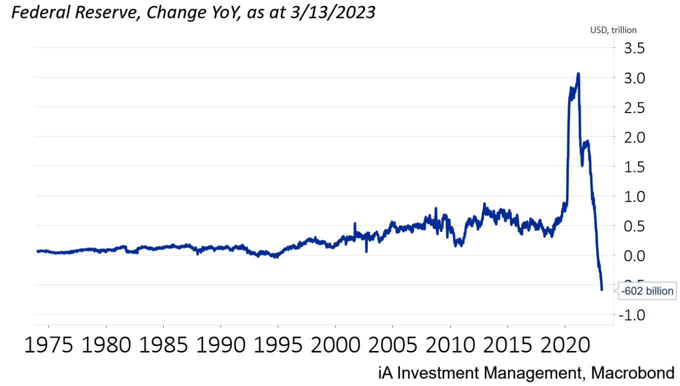
The size of the inflows still pushed banks to purchase large quantities of long-duration, high-quality assets, such as Treasuries and Government of Canada bonds, and also to lend that money to households and businesses in the form of long-term loans.

Thus, the problem of liquidity mismatch (or, as we put it, interest rate risk) ballooned, as banks found themselves holding sizable positions in long-term assets to service short-term liabilities. Even though some of these assets are liquid, such as Treasuries, some are clearly not, such as long-term loans, which are generally not callable.

Now that central banks have moved from QE to quantitative tightening (QT), simple accounting shows that the deposit outflows should, over the course of the program, be equivalent to the inflows generated from 2020 to 2022. After all, QT is by nature a program that pumps money out of the system *de facto*; moreover, unless it is fine-tuned (we expect central bankers to have no choice other than to slow it considerably), it creates the potential for major headwinds to deposits.

U.S.: Deposits at Commercial Banks

Federal Reserve, Change YoY, as at 3/13/2023



As the above figures show, deposit outflows have accelerated sharply over the past year, with drawdowns of about $600 billion in the United States and $110 billion in Canada. Moreover, both figures are roughly in line with the reduction in the Fed's and the BoC's balance sheets during that period.

Deposits are at the heart of bank liabilities; therefore, the ability to service the outflow from the bank's asset base needs to be equivalent. In other words, we could see more forced sales down the road.

The question then might not be "When will the Fed start cutting its key rate?" but rather "When will the Fed end its QT program?"

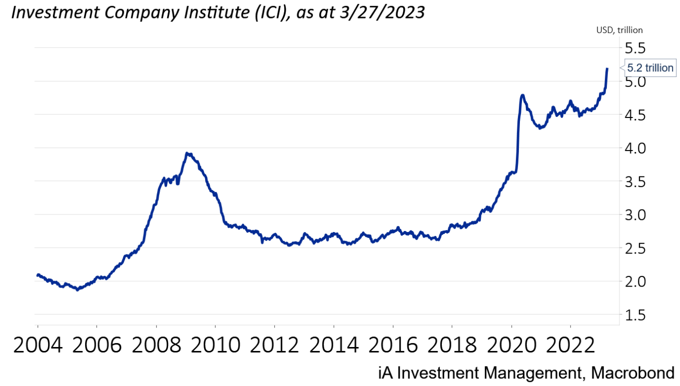
The appeal of money-market funds

But wait, there's more!

Bank deposits, which generally carry low interest rates, are seriously competing for the first time since before the GFC with the attractive rates offered by money-market funds (MMFs). According to Bankrate.com, the U.S. national average rate on savings accounts is 0.2%, while MMFs offer about 4.5 – 5.0% thanks to the massive monetary policy tightening of the past 12 months.

U.S.: Money Market Fund Assets, Total

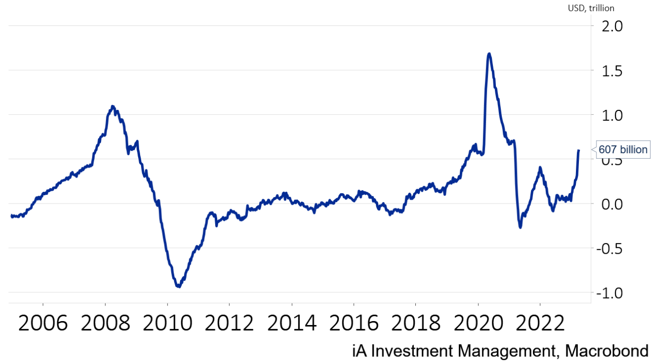
Investment Company Institute (ICI), as at 3/27/2023



Exhibiting purely rational behaviour, hordes of depositors have been moving their money from bank accounts to MMFs, which offer good returns along with liquidity. Data from ICI show that U.S. MMFs have seen their assets rise by more than $450 billion in the past 12 months, with most of that amount having shifted in recent weeks.

U.S.: Money Market Fund Assets, Total

Investment Company Institute (ICI), Change YoY, as at 3/27/2023



But MMFs can't take deposits, meaning that no money actually flows into these funds. Rather, money going from a bank account to a money market fund is wired to the MMF's bank account, from which it is withdrawn to buy the commercial paper or short-term debt in which the fund wishes to invest. When the assets are purchased by the MMF, the money is then transferred into the bank account of the seller of the asset; thus, inflows into MMFs move deposits around the banking system but do not actually take deposits out of it.

That being said, things have changed since 2013, when the Fed created its reverse-repo (RR) facility to ensure effective implementation of central bank monetary policy. It is becoming clear that the facility is having some important destabilizing effects on the U.S. banking system.

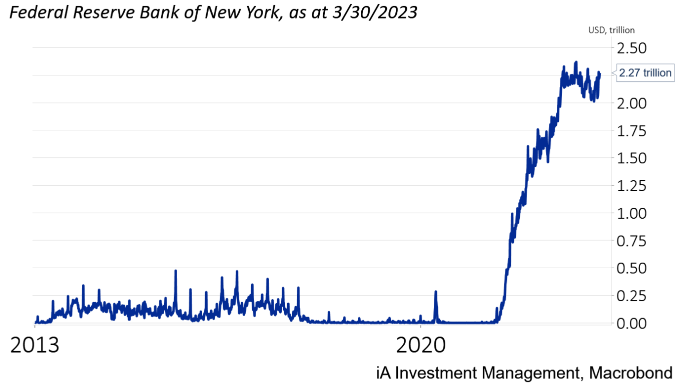
In a repurchase, or repo, transaction, a bank borrows money from another bank OR a central bank and deposits collateral (typically high-quality bonds) in exchange. The repo market has become one of the largest in the world, and the U.S. market alone sees about $3 trillion in funding every day. As you would expect, a reverse-repo does just the opposite. A useful example is an MMF instructing its custodian bank to deposit reserves (drawing from the MMF's deposits at the bank) at the Fed in exchange for the securities that it then holds for its clients.

The size of the RR facility has soared since March 2021, when the exemption on the Supplementary Leverage Ratio expired. Before that date, banks borrowed from MMFs in exchange for collateral; but, with the lapse in the SLR exemption, and banks still being flush with cash, the demand for liquidity from banks dried up. MMFs had to turn to the Fed's RR facility for their operations, inflating the RR facility's balance to more than $2 trillion.

As we can see from the above chart, the use of the RR by MMFs is not new but is indicative that banks have had too much unwanted cash on hand since the COVID-19 measures were enforced. But what is new is that today's relatively attractive short-term rates are creating a strong incentive for depositors to take their cash out of the banks and to flood MMFs, which then turn to the central bank and effectively pump deposits out of the system.

Fed RRP Facility Balance, $ Trillions

Federal Reserve Bank of New York, as at 3/30/2023



Can we have both financial stability and price stability?

To recap, there are two forces at play that should continue to drive deposits out of banks and to threaten financial stability, unless new regulation is passed or central banks change their monetary policy.

First and foremost, QT is directly taking money out of the system, sucking out deposits in a dollar-for-dollar proportion. If banks face hurdles in providing liquidity to their depositors while this vacuum is whirring, central banks will be forced to slow the pace of QT or to get creative with the other tools in their toolbox to limit financial stability risks.

Second, the pressure created by the attractiveness of MMFs over savings accounts is only starting to be felt, and the gap has widened further with the March hikes by the ECB and the Fed. Short rates are expected to remain elevated; thus, with volatility returning to the markets, we can reasonably expect even more flows into MMFs, which will then turn to the Fed's RR facility, effectively pumping even more deposits out of the system.

It all boils down to a choice between financial stability and price stability. Global inflation has proved to be stickier than was expected only a few months ago, as evidenced by the U.K.'s surprise rebound of annual growth in CPI to above 10% in March.

Central banks have multiple tools at their disposal but must select the right tool for the right job. If financial stability is impaired, the economic impact is likely to be a more severe recession, which should solve the inflation problem. But we wonder whether it is reasonable, given the peculiar backdrop of 2023, to expect central bankers to tackle financial stability and price stability at the same time.

What about the Canadian banks?

The above analysis is rather U.S.-centric because 1) the United States is where the recent turmoil emerged; and 2) its highly decentralized banking model is more accident-prone. Even though the general dynamic whipping up headwinds for bank balance sheets is also present in Canada (QT shrinking deposits, attractiveness of MMFs), several of our banking system's characteristics lead us to believe that it is once again strong enough to weather the imminent risks that the U.S. system is facing.

First, the more centralized, oligopolistic nature of Canada's banking sector should be seen as a strength, with all the major banks being relatively large and geographically diversified.

Second, Canada's financial sector is well regulated, and the types of capital exemptions that smaller U.S. banks were offered under the 2018 Reform Act are not common north of the border. It is also quite easy for Canadian regulators to get every bank CEO around a table in periods of turmoil.

Third, the Bank of Canada's Reverse Repo program has not seen the inflows that are characteristic of the Fed (not yet at least), hinting there may be less pressure on deposits coming from MMFs' use of the BoC's balance sheet.

But we are definitely not ruling out the possibility that Canada's banks will also eventually struggle with the rapid normalizing of monetary policy, and in the coming months we will continue to share our analysis of the situation.

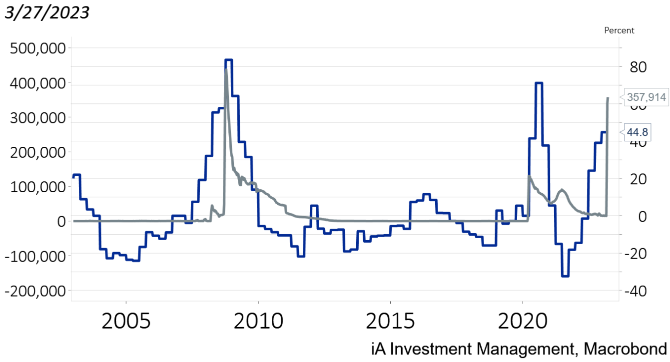
Bottom line

Equities

The main channel through which the squeeze on the U.S. banking sector affects our views is credit conditions.

Tighter Lending Standards Follow Banking Stress

Federal Reserve, C&I loans for large/medium vs discount window borrowing as at 3/27/2023



With the focus clearly on bank balance sheets, and the risk that confidence in the solvency of additional banks could be shaken in the near future, we can expect more banks to tighten their lending standards. In fact, although the history is short on this matter, spikes in use of the Fed's discount window tend to precede significant tightening of small banks' lending criteria.

Even though the words "small banks" may have a benign connotation, it's important to remind our readers that, in the United States, small banks are responsible for about half of all commercial and industrial (C&I) lending, as well as 80% of total commercial real estate (CRE) lending.

S&P 500: Earnings Growth vs ISM Manufacturing

6 month lead on ISM, as at 2/28/2023

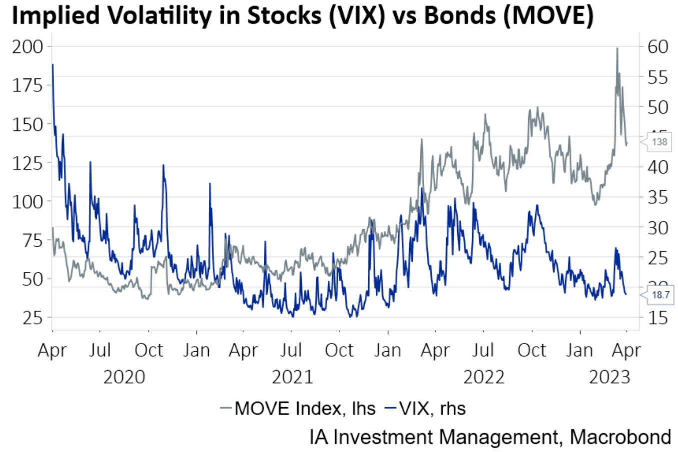
The general optimism of small businesses is, in turn, quite sensitive to lending standards. And, with small businesses responsible for about two-thirds of U.S. job creation, the impact on the labour market could be swift.

S&P 500: Equity Risk Premium

Using 12-Month Fwd Earnings and U.S. 10 Year Rate, as at 3/30/2023

The U.S. manufacturing PMI is already in correction territory. Moreover, given the importance of the credit cycle, we can expect further headwinds to growth. The ISM index has tended to be a reasonably good leading indicator of S&P 500 earnings per share (EPS) growth, and the signal we have is already pointing to earnings contraction, rather than expansion, in 2023. The recent developments have only prompted us to be more negative on the EPS outlook.

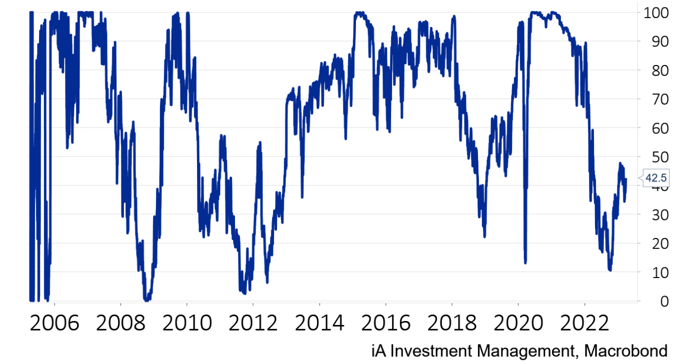
Implied Volatility in Stocks (VIX) vs Bonds (MOVE)



Another reason to remain cautious toward U.S. equities is that, despite the recent violent moves in sovereign bond prices, the equity risk premium (ERP) for the S&P 500 has remained in the neighbourhood of 2%, and the VIX has stayed low, despite the massive jump in the MOVE index. So, the stock market remains relatively expensive, and equity investors unreactive to the risk environment.

MSCI ACWI Ex-U.S.: Fwd P/E Percentiles

Expanding window, total history, as at 3/30/2023



With Wall Street trading at pricy multiples in relation to global ex-U.S. markets, we are staying the course and continue to underweight equities, with a cautious tilt, keeping a more favourable bias toward global markets rather than the United States.

S&P 500: Fwd P/E Percentiles

Expanding window, total history, as at 3/30/2023

Fixed income

March turned out to be one of the most volatile months in history for yields, with moves of 10 basis points or more in short and long rates on multiple consecutive days. Our base-case scenario is that the global economy will run out of steam in 2023 and that recession risks have most likely been ratcheted higher for the coming 12 months; thus, we remain comfortable with our overweight position in fixed income, with a tilt toward long-duration sovereign bonds and short-duration quality credit.

The year should continue to be volatile, but we still think fixed income will outperform equities in 2023. Both the Fed and the ECB have continued to raise rates and have conveyed their intention of continuing to hike at least into the near future, while emphasizing the inherent uncertainty of the forecast. Thus, we estimate that the risks of overtightening and/or of a financial incident have become sizable, and we see real potential for a short squeeze on Treasury futures in the coming months.

Speculative Positions on 10-Year Treasuries

CFTC, Bloomberg, as at 3/24/2023

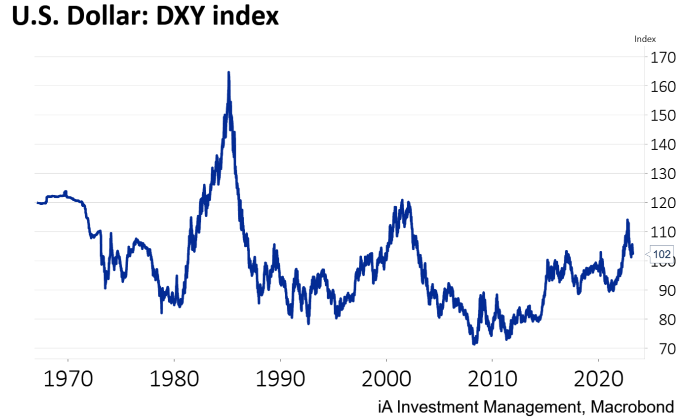
We also extrapolate from the most recent Fedspeak that the end of the Fed's tightening cycle is nearing, and that May could see the last rate hike of the cycle. History suggests that investors benefit from moving to a long-duration stance after the last rate hike, bringing our general positioning in line with this view.

Commodities and foreign exchange

The U.S. dollar exhibited strong volatility in March and declined by about 2%, pushing the euro and gold higher. With risks to the global macro outlook rising in the aftermath of the banking turmoil, oil prices were down, taking the Canadian dollar lower on the month.

We continue to overweight the U.S. dollar, given its countercyclical properties. The early signs of an economic slowdown that we are seeing could support further short-term gains on the greenback, supporting our positioning for a bit longer.

U.S. Dollar: DXY index



As for gold, we are starting to see constructive signs emerge.

iA Investment Management

Increasing concern about the global banking system and the potential for the Fed's hiking cycle to near its end are both supportive of further gains from gold in the coming months.

Gold can also act as a safe haven in times of market turbulence, along with the U.S. dollar. Commodity trading advisors' long positioning is already on the rise, signalling a potential shift in speculative sentiment. ETF flows show the start of a similar trend, albeit not as pronounced.

Even so, we've decided to stay in wait-and-see mode for now, because gold tends to start outperforming once rates have peaked, and not necessarily before. Thus, we are biding our time as we wait for the right macro conditions to unfold before raising our gold positioning.

Market Performance

(Total return, in local currency)

As of March 31, 2023	MTD%	QTD%	YTD%	Δ1Y%
Equity				
S&P 500	3.7%	7.5%	7.5%	-7.7%
S&P/TSX	-0.2%	4.6%	4.6%	-5.2%
NASDAQ	9.5%	20.5%	20.5%	-11.2%
MSCI World	2.5%	7.4%	7.4%	-5.5%
MSCI EAFE	0.5%	7.5%	7.5%	3.8%
MSCI EM	2.2%	3.8%	3.8%	-6.2%
Commodities				
Gold	7.8%	8.0%	8.0%	1.6%
CRB	0.4%	-0.7%	-0.7%	-13.2%
WTI	-1.8%	-5.7%	-5.7%	-24.5%
Fixed Income				
FTSE Canada Universe Bond Index	2.2%	3.2%	3.2%	-2.0%
FTSE Canada Long Term Bond Index	2.6%	4.7%	4.7%	-7.2%
FTSE Canada Corporate Bond Index	1.3%	2.8%	2.8%	-1.0%
Currency				
DXY	-2.3%	-1.0%	-1.0%	4.3%
USDCAD	-1.0%	-0.3%	-0.3%	8.1%
USDEUR	-2.4%	-1.2%	-1.2%	2.1%
USDJPY	-2.4%	1.3%	1.3%	9.2%
USDGBP	-2.5%	-2.1%	-2.1%	6.5%

As of March 31, 2023	MTD%	QTD%	YTD%	Δ1Y%
S&P/TSX Sectors				
Financials	-5.9%	1.7%	1.7%	-9.8%
Energy	-2.2%	-2.3%	-2.3%	-1.2%
Industrials	2.0%	6.5%	6.5%	4.0%
Materials	6.9%	8.1%	8.1%	-8.4%
Information Technology	11.1%	26.5%	26.5%	-5.9%
Utilities	5.4%	6.7%	6.7%	-9.0%
Communication Services	0.7%	3.2%	3.2%	-7.6%
Consumer Staples	4.3%	7.9%	7.9%	12.7%
Consumer Discretionary	0.4%	4.6%	4.6%	6.5%
Real Estate	-4.7%	5.8%	5.8%	-12.9%
Health Care	-11.3%	0.9%	0.9%	-57.7%
S&P 500 Sectors				
Information Technology	10.9%	21.5%	21.5%	-5.6%
Health Care	2.1%	-4.7%	-4.7%	-5.3%
Consumer Discretionary	3.0%	15.8%	15.8%	-20.4%
Financials	-9.7%	-6.0%	-6.0%	-16.0%
Communication Services	10.4%	20.2%	20.2%	-18.5%
Industrials	0.6%	3.0%	3.0%	-1.6%
Consumer Staples	3.8%	0.2%	0.2%	-1.4%
Energy	-0.5%	-5.6%	-5.6%	9.1%
Utilities	4.6%	-4.0%	-4.0%	-9.0%
Real Estate	-2.1%	1.0%	1.0%	-22.4%
Materials	-1.3%	3.8%	3.8%	-8.2%

12-month market scenarios (as of April, 2023)

Baseline (50%)	The recent acceleration of the North American labour market shows the economy is more resilient than expected, and the resulting wealth effect is potentially enough to help the macro landscape avoid a recession in 2023. That being said, the recent turmoil in banks shows that the massive liquidity injections from 2020 to 2022 are creating issues for banks, as deposits flee, causing an interest rate mismatch on their balance sheets. Banks tighten their lending standards, and the credit cycle slows abruptly. This context is raising recession risks for 2023, making the risks more balanced than expected last month. Global inflation remains more persistent than market participants currently expect. Base effects should bring annual inflation to between 3 and 4% by mid-year, before we see a slight reacceleration in the second half. The Fed and the ECB think their work isn't done and continue to tighten in the first half of 2023. The Bank of Canada stays on the sidelines, as the risks to the financial system lead to tighter lending conditions. The first rate cuts by central banks do not come until 2024, when inflation finally gives evidence of being tamed. The housing slowdown caused by the accumulation of higher rates creates a negative wealth effect, keeping the global economy relatively soft. Unemployment rates rise slightly in the second half of 2023, when the full impact of the 2022 rate hikes is felt. China's reopening gives some support to global growth but does not change the overall trajectory. The war in Ukraine, global droughts and high fertilizer prices continue to put upward pressure on food prices. The bear market in equities continues to its resolution in the form of a capitulation event, with a likely bottom in 2023. Sovereign yield curves remain inverted for most of the year. Long rates have risen substantially and present an interesting value proposition, given the growth and monetary policy outlook. **Overweight duration and U.S. dollar, underweight equities.**
Bearish: sticky inflation and banking turmoil (25%)	Sticky inflation remains above central bank targets, and key rates are hiked higher and faster than the market currently expects. Elevated short rates drive money our of bank deposits and into money market funds, pressuring bank balance sheets and causing more turmoil for U.S. banks. Canadian banks remain in good shape and do not face such hurdles. Central banks keep their key rates at the terminal level well into 2024 and use other programs, such as the Bank Term Funding Program (BTFP) and their discount window, to provide liquidity and to avoid bank runs. The economy slows significantly in the second half of the year, leading to a more material deterioration in employment. The recession is deeper in Europe and, with fiscal space being limited, governments have less room to stimulate the economy. The bear market continues, but drawdowns are larger. The absolute low for equities moves to 2024. The bond bear market is prolonged as market participants are forced to reprice bonds in the wake of higher terminal rates. **Underweight equities, duration and fixed income. Overweight cash and U.S. dollar.**
Bullish: falling inflation and pivot (10%)	Inflation returns to target more quickly than expected, allowing central banks to start easing in the second half of 2023. The pressure on banks subsides, and bank failures are limited to specific cases in the United States. Less monetary tightening is necessary over all, and terminal rates are slightly lower than currently expected. Most advanced economies avoid a recession. Energy prices are supported by strong demand. Base metal prices enter a new super cycle, given their role in the energy transition. The stock and bond markets rebound as a recession is avoided. **Overweight equities, base metals and bonds. Underweight cash and U.S. dollar.**
Other (15%)	Banking crisis Escalation or resolution of the conflict in Ukraine. Escalation of tensions between China and the United States. Faster-than-expected global economic slowdown.

About iAIM

A magnet for top investment talent, iA Investment Management is one of Canada's largest asset managers, with over $100 billion under management across institutional and retail mandates. We help investors achieve their long-term wealth creation goals through innovative investment solutions designed for today's complex markets. We are building upon our historic success, supporting the growth of our core strengths, and exploring innovative ways to meet investor needs. We are rooted in history and innovating for the future. Our experienced portfolio managers use a proprietary investment methodology, rooted in iAIM's unifying commitment to strong risk management, analytical rigor a disciplined, process-driven approach to asset allocation and security selection.

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