

PERSPECTIVES

For the 12-month period beginning April 1, 2019

“Global central banks are increasingly debating whether keeping policy rates ultra-low over an extended period of time may be detrimental to the global banking system and the world economy. For this reason, they will be patient before spending the ammunition they have left.”

In a wait-and-see mode

Risk assets fell off a cliff late last year, only to stage their strongest comeback in more than a decade over the first quarter. The economic slowdown and market turmoil of 2018 were triggered by monetary policy normalization and concerns around trade wars and geopolitics. While these headwinds are dissipating, they haven't completely disappeared.

Asset class highlights

Fixed Income vs. Equity: Our strategy favours a small tilt toward equities; however, with their downside risk and the scarcity of attractive defensive assets to balance portfolios, our approach is conservative.

Equity: While equity markets may struggle in the short term to find a catalyst, we should see positive but unspectacular returns in 2019.

Fixed Income: Global economic data is unlikely to consistently surpass expectations—this could cap the upside for yields at 2.60% (U.S.) and 1.85% (Canada) for 10-year sovereign bonds.

Currencies: The Canadian dollar remains more fundamentally challenged than most developed market currencies.

Multi-asset outlook

Asset class	Tactical view ¹	Change in tactical view ¹	Long-term return ²	Long-term volatility ³
FIXED INCOME Canada 2 Year	NEUTRAL	No change	1.9%	1.0%
FIXED INCOME Canada 10 Year	MODERATELY BEARISH	No change	1.4%	5.7%
FIXED INCOME U.S. 2 Year	NEUTRAL	No change	1.9%	9.3%
FIXED INCOME U.S. 10 Year	MODERATELY BEARISH	No change	1.7%	12.7%
FIXED INCOME International Bonds	SIGNIFICANTLY BEARISH	Downgrade	1.7%	9.0%
FIXED INCOME CREDIT Canada Investment Grade	NEUTRAL	Downgrade	3.0%	3.8%
FIXED INCOME CREDIT U.S. Investment Grade	NEUTRAL	Downgrade	2.8%	9.1%
FIXED INCOME CREDIT U.S. High Yield	MODERATELY BULLISH	No change	4.5%	7.2%
FIXED INCOME Emerging Sovereign ⁴	MODERATELY BULLISH	No change	8.0%	8.8%
EQUITY Canada	NEUTRAL	No change	4.7%	10.3%
EQUITY U.S.	MODERATELY BEARISH	Upgrade	2.9%	9.7%
EQUITY EAFE	NEUTRAL	Downgrade	5.7%	11.2%
EQUITY Emerging Markets	MODERATELY BULLISH	Downgrade	12.2%	12.8%
CURRENCY U.S. Dollar ⁵	NEUTRAL	No change	-0.6%	9.2%
CURRENCY Euro ⁵	MODERATELY BEARISH	No change	0.6%	7.9%
CURRENCY Japanese Yen ⁵	MODERATELY BULLISH	Upgrade	1.3%	12.4%
CURRENCY Great Britain Pound ⁵	NEUTRAL	Upgrade	0.9%	8.6%
CURRENCY Swiss Franc ⁵	NEUTRAL	Upgrade	-1.0%	10.0%
CURRENCY Chinese Yuan ⁵	NEUTRAL	No change	3.0%	8.6%

This chart represents general views and may not reflect the strategy of specific portfolios.

¹For the next 6-12 months, any change in view reflects a change from the previous quarter's outlook

² Projected average annual return – next 10 years, in CAD

³ Historical annual volatility, in CAD

⁴ Emerging sovereign bonds denominated in local currency

⁵ All currencies evaluated against the Canadian dollar (CAD)

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