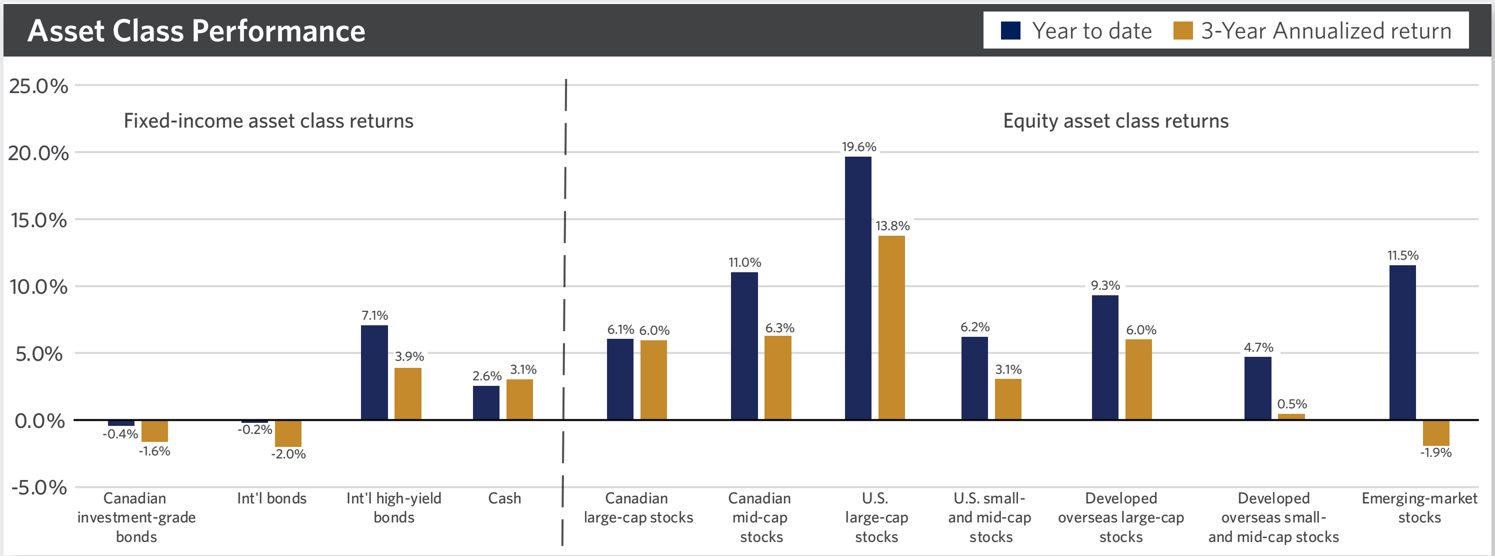
Quarterly market outlook: **Third quarter 2024**

Asset Class Performance



Source: Morningstar Direct, 1/1/2024 - 6/30/2024. Total returns in CAD. Canada Large-cap Stocks represented by the S&P/TSX Composite Index. U.S. small- and mid-cap Stocks represented by the Russell 2500 Index. International Bonds represented by the Bloomberg Global Aggregate Bond CAD Hedged Index. International high-yield represented by the Bloomberg Global High Yield Index. Canadian investment-grade bonds represented by the Bloomberg Canada Aggregate Bond Index. U.S. Large-cap stocks represented by the S&P 500 Index. Emerging Market Stocks represented by the MSCI EM Index. Overseas Large-cap Stocks represented by the MSCI EAFE Index. Canadian Mid-cap stocks represented by the S&P/TSX Completion Index. Overseas small- and mid-cap stocks represented by the MSCI EAFE SMID Index. Cash represented by the FTSE Canada 91 Day Treasury Bill Index. Past performance does not guarantee future results. An index is unmanaged and is not available for direct investment.

Looking back at the first half

Stocks rallied in the first half of 2024, led by ongoing strength in mega-cap U.S. tech stocks. But investment-grade bond returns have been muted in the face of higher yields.

U.S. tech stocks lead markets higher while bonds lag - Equity markets rose in the first half of the year, led by a 19.6% gain in U.S. large-cap stocks. The usual suspects drove the gains for U.S. large-cap stocks, with the information technology and communication services sectors of the S&P 500 each higher by over 26% year to date. Enthusiasm around the growth potential of artificial intelligence (AI), along with robust profit growth, has lifted these sectors higher. Canadian large-cap and mid-cap stocks saw healthy gains as well, rising by 6.1% and 11% respectively.

Bond yields rose modestly in the first half of 2024, pressuring investment-grade bond returns. Steady global economic growth supported lower-quality issuers, with global high yield bonds higher by 7.1% year to date.

Bank of Canada kicks off central bank easing cycle; Fed likely to follow - After aggressively raising interest rates over the past two years to combat inflation, the Bank of Canada (BoC) became the first G7 central bank to lower interest rates this year, cutting its policy rate 0.25% at its June meeting. One day after the June BoC meeting, the European Central Bank followed suit, cutting rates by 0.25% as well. Economic growth in Canada and Europe has been sluggish. This, combined with lower inflation, provided policymakers with the confidence needed to begin cutting rates.

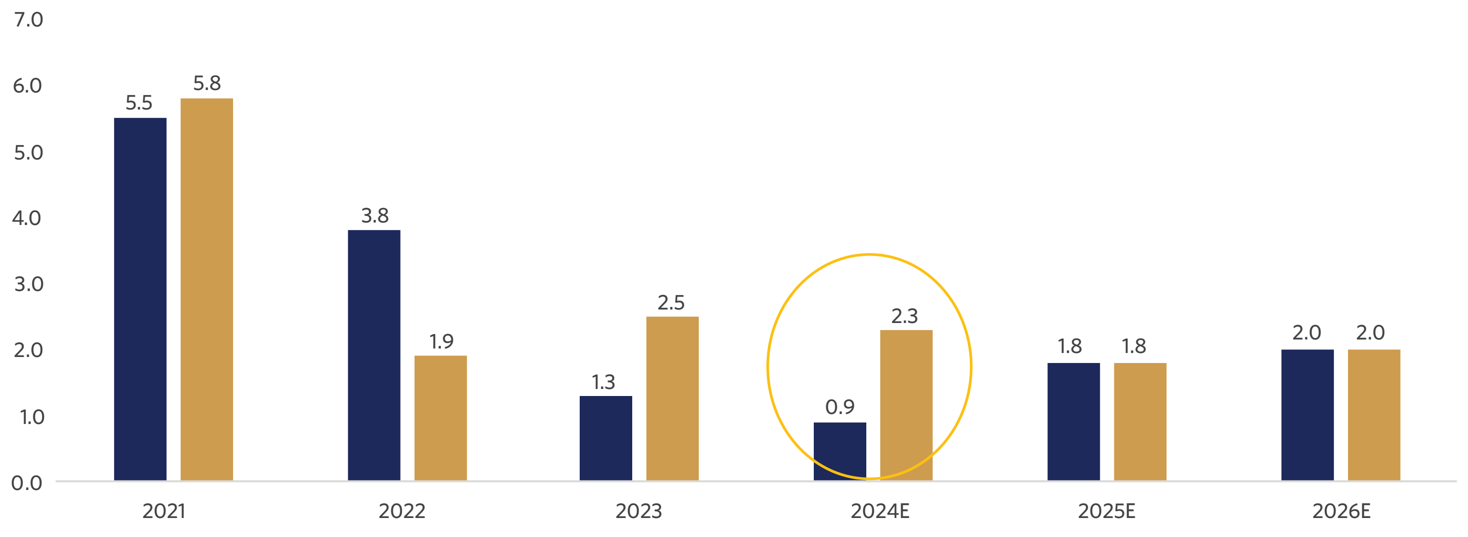
In the U.S., the Federal Reserve has maintained its policy rate target range at 5.25%–5.5% since July 2023. After several months of higher-than-expected U.S. inflation to begin 2024, inflation resumed its trend lower in Q2. If sustained in the months ahead, this could lead the Fed to cut interest rates once or twice later this year.

Overseas stock markets rise - Overseas stocks gained in the first half of 2024, with emerging-market stocks rising 11.5% and developed overseas large-cap stocks higher by 9.3%. The rally in emerging market stocks was aided by support from Chinese policy makers which included measures to support the nation's struggling property market. Improving economic growth in Europe, albeit from low rates, and strong corporate profit growth in Japan helped lift developed overseas large-cap stocks higher in the first half.

▸ Action for investors

Broad market leadership across multiple regions in the first half of the year reinforces the value of diversification. We recommend resisting the urge to chase performance and instead maintain a diversified portfolio aligned to your long-term goals.

Canadian real GDP growth is expected to lag the U.S. in 2024, before rebounding (Real GDP, YoY%)



Source: Bloomberg

Economic outlook

The Canadian economy has emerged from a soft patch in the back-half of 2023 but continues to remain at or slightly below trend levels. In the first quarter, real GDP growth was 1.7% annualized, supported by solid household consumption of 3%. However, this may slow in Q2 and the second half of the year as consumption is expected to moderate to below 2%.

Labour market shows early signs of cooling - The Canadian labour market went through a period strength in the post-pandemic period, with the unemployment rate falling to a low of 5.0% in June 2022. However, the labour market since cooled, with the unemployment rate now at 6.4%, the highest since January 2022. Leading indicators point to further softening, as job vacancies (job openings in the economy) have fallen to recent lows. Meanwhile, the labour supply continues to increase, supported by immigration as well.

The labour market's supply-and-demand dynamics could lead to further pickup in the unemployment rate and put some downward pressure on wage growth, in our view. If job uncertainty is elevated, consumer sentiment and some consumption may be negatively impacted. However, we would view this as a deceleration rather than a deep or prolonged downturn.

Inflation may continue its bumpy path lower - The Canadian consumer price index (CPI) has moved steadily lower, despite fluctuating May results. The CPI inflation rate in Canada stands at 2.9%, versus 3.3% in the U.S., and we believe these inflation rates could head lower, albeit perhaps not in a straight line, for two key reasons:

1. Shelter and rent components of inflation moderates, especially given real-time data for Canadian home price appreciation has already slowed
2. Services inflation cools as wage growth potentially slows

If inflation continues to moderate, and the Canadian economy softens, we believe the Bank of Canada will continue to cut interest rates, perhaps two or three more times in 2024, which support a rebound in economic growth as we head towards 2025.

▶ Action for investors

In this backdrop, we continue to favour U.S. large-cap and mid-cap stocks over Canadian large-cap stocks, which we believe will benefit from both central bank rate cuts and more exposure to growth sectors of the market.

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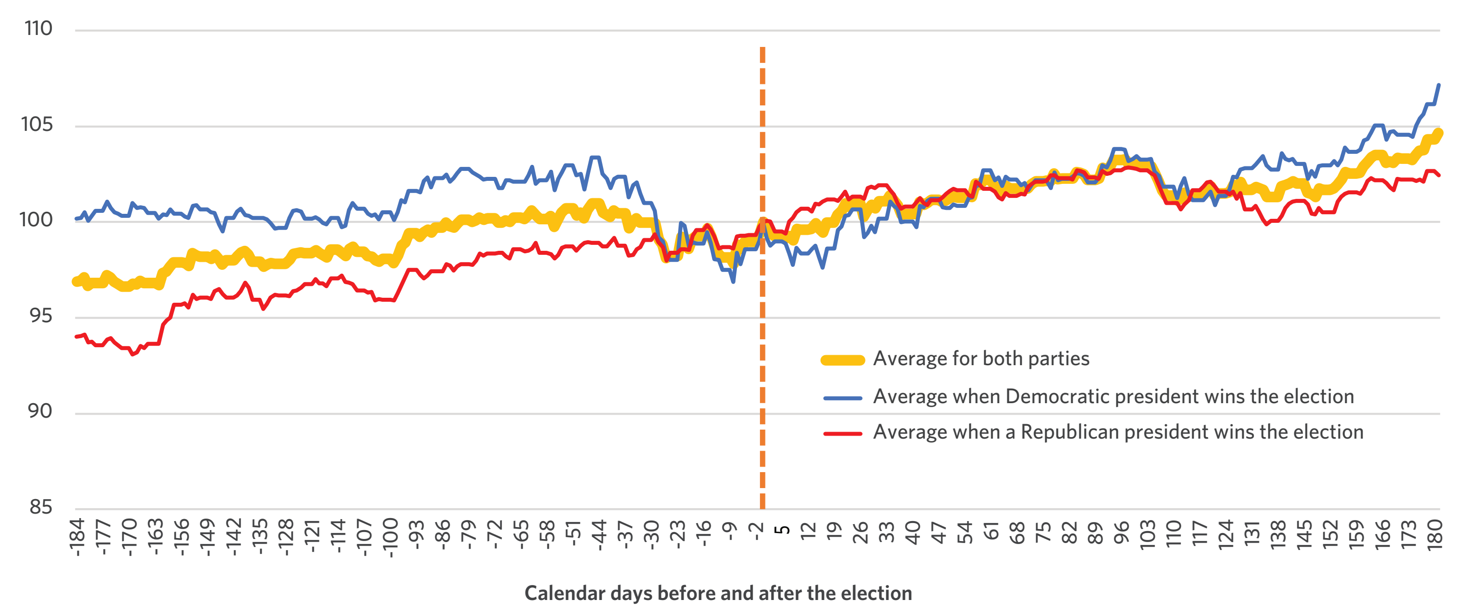
Average S&P 500 Price Return: Indexed to 100 on U.S. election day (1964 - 2020)



Source: MorningStar
Past performance is not a guarantee of future results.

Equity outlook

The U.S. and Canadian stock market performance was mixed in Q2. The U.S. S&P 500 was up about 4%, driven by technology and artificial intelligence (AI) sectors, while the Canadian TSX was down about 1%, given its higher exposure to areas like financials and industrials. For the full year, however, the U.S. market is up by about 14%, and the Canadian equity market is also higher by over 4%.

Can market leadership broaden beyond U.S. mega-cap technology? Given our view that AI is in the early innings of a long-term growth phase, we believe U.S. technology sectors will continue to play a meaningful role in portfolios. Keep in mind that the S&P 500 has nearly a 50% weight to three growth sectors — technology, communication services and consumer discretionary — all of which house mega-cap AI stocks. These companies not only have delivered on earnings but have fortress cash positions, allowing them to reinvest in their businesses and return value to shareholders.

But we continue to believe market leadership should broaden beyond U.S. mega-cap technology for a few reasons. First, we see S&P 500 earnings growth broadening in the back half of the year. While the contribution to earnings growth in Q1 came largely from technology sectors, by Q4 we expect earnings growth will be driven equally by sectors outside of technology, which should support these sectors as well. Second, we believe that as we get closer to Fed rate cuts, and the Bank of Canada (BoC) continues its rate-cutting cycle, cyclical areas of the market may play catch-up as yields moderate. And finally, while the enablers of AI like semiconductors have gained most thus far, we believe that over time, the efficiencies from AI will be felt across sectors, which should support broader stock leadership in both the U.S. and Canada.

Will the U.S. presidential election trigger volatility? Historically, stock markets have experienced volatility in the six to eight weeks prior to U.S. election day, which is slated for Nov. 5 this year. However, markets typically recover in the weeks following the election.

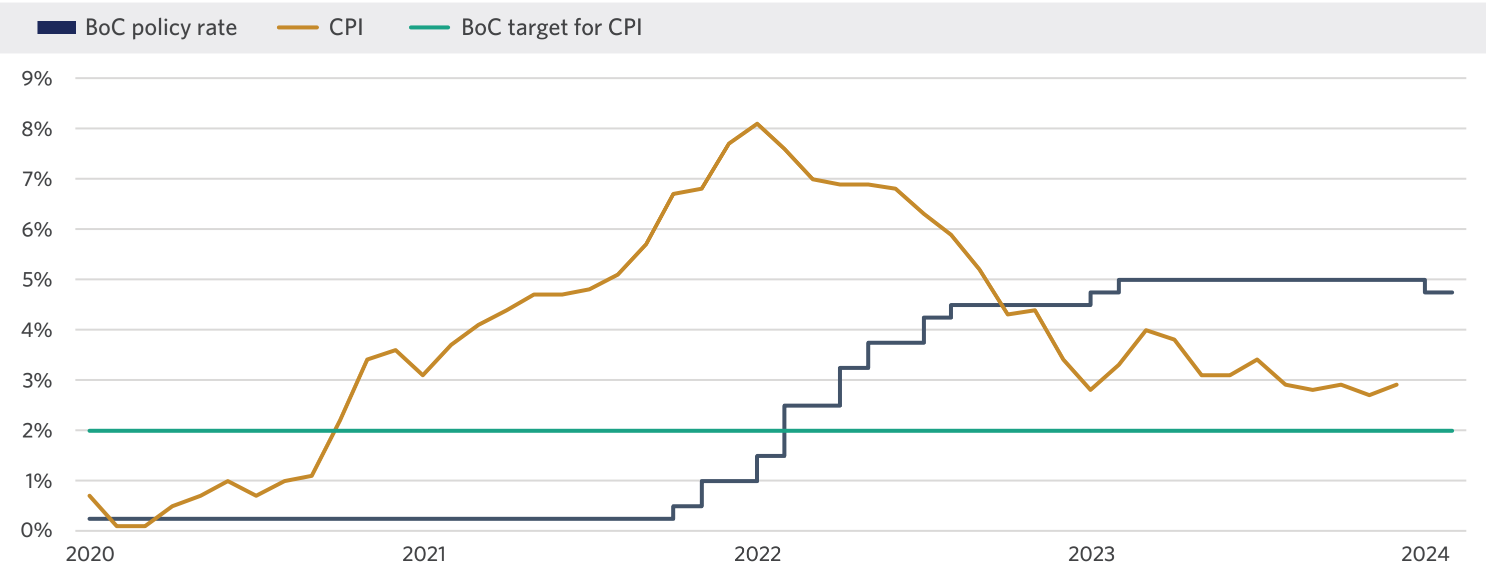
In this election cycle, we expect Congress to remain divided, which means no major new regulation or legislation is likely, regardless of which party wins. Markets tend to prefer this environment of political gridlock, as it means a more transparent operating environment for companies to run their businesses. Over the long run, markets tend to follow the fundamentals — including inflation, interest rates and economic growth — more so than politics and elections.

▶ Action for investors

We recommend using bouts of volatility as opportunities to rebalance and diversify portfolios. We remain overweight on U.S. large- and mid-cap equities, both of which can benefit as the Fed and BoC implement interest rate cuts and earnings growth broadens.

Investing in equities involves risks. The value of your shares will fluctuate and you may lose principal.
Mid- and Small-cap stocks tend to be more volatile than large company stocks.
Diversification does not guarantee a profit or protect against loss in declining markets.

Moderating inflation should allow Bank of Canada to continue rate cuts gradually



Source: Bank of Canada

Fixed-income outlook

Bond yields have dropped from the recent peak in late April as markets price in the recent Bank of Canada rate cut and expectations for additional cuts, benefiting bond prices, and driving stronger returns. We expect slowing U.S. economic growth and moderating inflation to allow the Federal Reserve (Fed) to follow with rate cuts soon, which should push short-term rates lower, steepening the yield curve.

Bank of Canada (BoC) cuts policy rate - BoC cut its policy rate to 4.75% - from 5.0% in June citing further evidence showing that underlying inflation is easing on a more sustained path toward its 2% target. The central bank noted that additional cuts would likely be gradual given that inflation is forecast to slow gradually. While CPI ticked up to 2.9% in May, we expect inflation to resume its path lower over the coming months, allowing for additional rate cuts toward the end of this year. As the timing of additional BoC easing becomes clearer, short-term yields should decline, likely steepening the yield curve and leading to higher reinvestment risk for short-term bonds and GICs. We see value in intermediate- and long-term bonds, which allow investors to lock in higher rates for longer. Maturing or called bonds and GICs could be a source of funds to extend duration or to reallocate to underrepresented asset classes.

The Fed signals one rate cut this year – At its June meeting, the Fed updated its economic projections, trimming expectations to one rate cut for this year, down from three cuts at its March meeting. While the Fed's preferred inflation measure - core Personal Consumption Expenditures (PCE) - remains above the Fed's target of 2%, we expect inflation to continue to moderate in the back half of the year, driven in part by lower shelter inflation and slower wage growth. U.S. government measures of shelter inflation, including the Consumer Price Index (CPI) and PCE, have been lagging market-based measures, such as Zillow's Observed Rent Index, which show housing costs rising at a slower pace. Labour markets have also started to cool, reflected in fewer job openings and slowly rising unemployment. We expect moderating inflation to allow the Fed to pivot to rate cuts, likely in September or December of this year, potentially both, steepening the U.S. yield curve.

International bonds could underperform U.S. small- and mid-cap stocks over the near term - U.S. economic growth moderated in the first quarter of 2024 from the above-trend pace of late 2023. A likely Fed pivot to interest rate cuts later this year should support U.S. economic activity over time. While bonds typically perform well during Fed rate-cutting cycles as their prices rise, we expect this backdrop to also be supportive for U.S. stocks. We believe U.S. small- and mid-cap stocks can outperform international investment-grade bonds over the near term by offering a balance of quality and cyclicality to potentially benefit from the ongoing U.S. economic expansion.

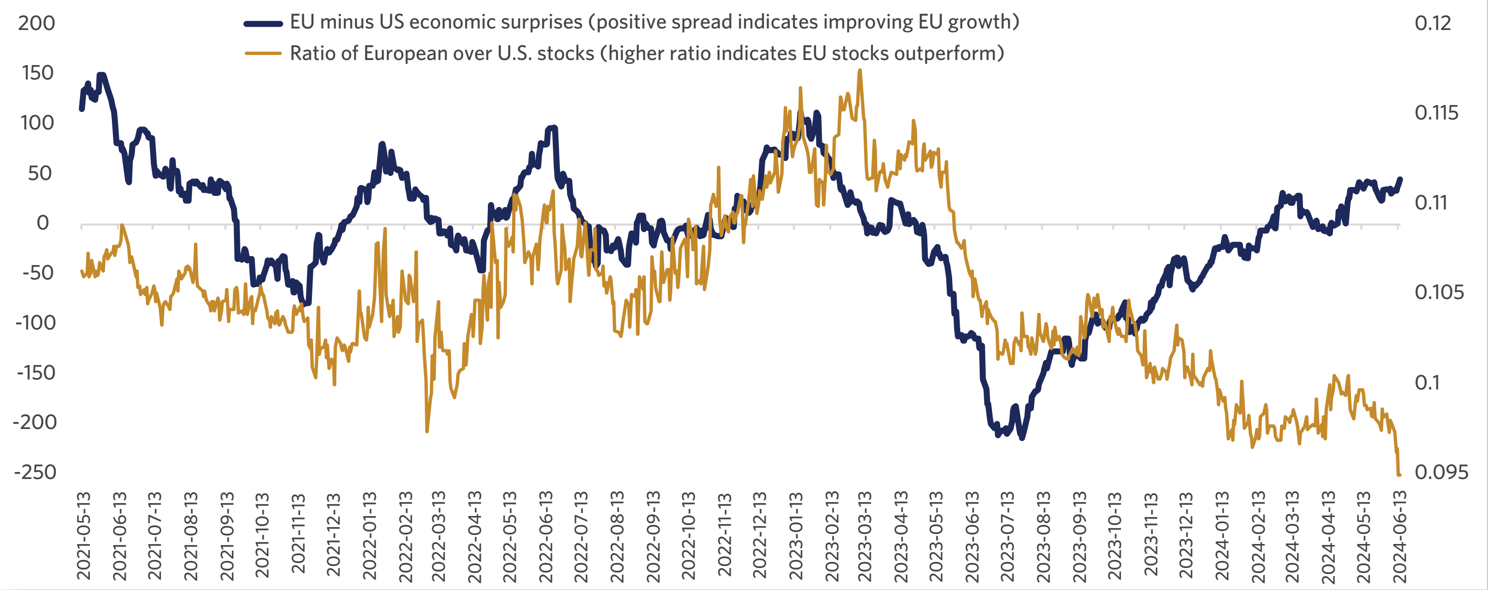
▶ Action for investors

We recommend underweighting fixed income relative to your long-term strategic asset allocations, as we expect U.S. stocks, and more specifically, U.S. small- and mid-cap stocks to outperform international investment-grade bonds over the near term. Within Canadian Investment-grade bonds, extending duration by adding to intermediate- and long-term bonds and bond funds can help reduce reinvestment risk by locking in rates for longer.

Investing in equities involves risks. The value of your shares will fluctuated and you may lose principal. Mid-and Small-cap stocks tend to be more volatile than large company stocks.

Before investing in bonds, you should understand the risks involved, including credit risk and market risk. Bond investments are also subject to interest rate risk such that when interest rates rise, the prices of bonds can decrease, and the investor can lose principal value if the investment is sold prior to maturity.

Narrowing growth gap could help overseas developed stocks



Source: Bloomberg, Edward Jones. U.S. stocks represented by the S&P 500; EU stocks represented by the Stoxx 600.

International outlook

Global growth has stayed resilient this year despite high borrowing costs, bolstered by U.S. strength. As major central banks start cutting rates to normalize policy, early signs of recovery outside the U.S. are starting to emerge.

European economy sees a gradual rebound - After the euro area economy stagnated for more than a year, a modest recovery appears to be under way. Growth picked up more than expected in Q1, and timely survey indicators have moved higher since then, suggesting the region's cyclical outlook is improving. Despite unemployment falling to historic lows, inflation pressures have receded, and the European Central Bank (ECB) has started to gradually ease policy. Political uncertainty in France at the end of Q2 weighed on stocks in the region. A proxy for European large-cap stocks (Stoxx 50), has been keeping pace with the S&P 500 over the past two years and continues to trade at large discount to U.S. stocks, while outperforming the TSX. With eurozone activity rebounding from a lull and U.S. economic activity normalizing after a period of exceptional strength, we believe overseas developed-market stocks offer catch-up potential and diversification benefits.

China stocks rally, but concerns remain - In response to an uncertain economic environment and an ongoing real estate crisis, Chinese policymakers have lowered interest rates, allowed banks to keep smaller reserves, and announced measures to absorb some of the excess housing inventory. The policy support has helped improve investor sentiment and sparked a Q2 rebound in stocks. But we remain cautious on the sustainability of the rally as earnings estimates have not turned higher and are hovering around 2017 levels. Also, housing activity remains depressed, and there is a looming threat of another trade war ahead of the U.S. elections. Regardless of the election outcome, the fracturing in the U.S.–China relationship could continue.

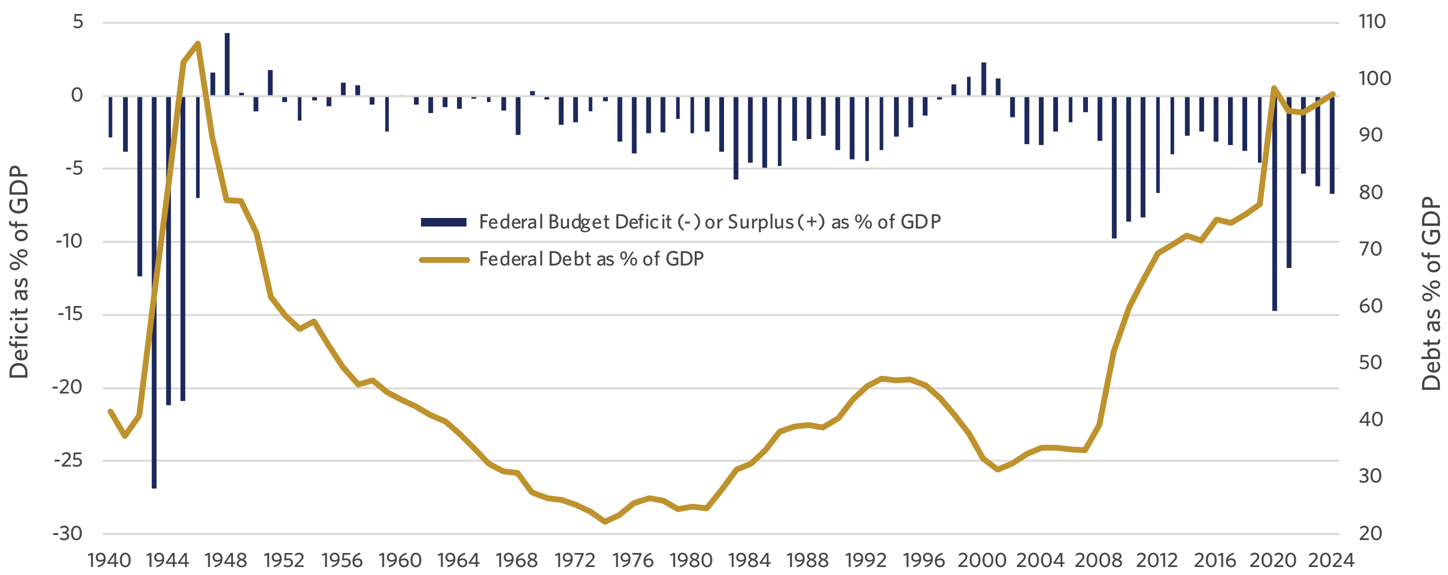
Global rate-cutting cycle begins - More central banks began easing policy in Q2, with the ECB and BoC (Bank of Canada) lowering interest rates in June. With inflation not yet returned to target, central banks will likely take a cautious approach to rate cuts. But we think a multiyear easing cycle will continue to gain steam next year. Lower rates can help drive a recovery in manufacturing activity and benefit cyclical sectors, which carry a higher weight in overseas indexes relative to the U.S.

Investing in equities involves risks. The value of your shares will fluctuate, and you may lose principal. Special risks are inherent to international investing, including those related to currency fluctuations and foreign political and economic events.

▶ Action for investors

We recommend underweighting emerging-market and Canadian equities, staying neutral with overseas developed equities, and overweighing U.S. stocks.

U.S. Federal Debt and Budget Deficits as % of GDP



Source: St. Louis Fed, Congressional Budget Office. Federal debt held by the public.

U.S. election issues and implications

We believe several issues will be raised during the U.S. presidential campaign that connect to fundamental factors important to the economy and markets, including government debt, Federal Reserve (Fed) policy and trade. The election's outcome shouldn't dramatically alter the course of markets or economy, but these factors may have some implications.

Debt and deficits: A slowly approaching train - U.S. budget deficits have run north of 6% in recent years. We've seen larger, rising U.S. deficits as a percentage of GDP (mid-'70s, early '80s, early 90s, 2008–2010), but these accompanied periods of economic weakness. Today's sizable deficits are occurring with above-average GDP growth. We believe this could require more fiscal restraint ahead. While the U.S. government's $35 trillion-and-growing debt is an astronomical number, as a percentage of GDP, it's not yet at a level that would limit the government's ability to borrow at reasonable rates. Favourable economic policies can help delay or lessen those risks, but we think the solution will require fiscal spending and tax adjustments. But we don't expect either candidate this year to pursue material policies to address long-term debt issues.

Tariffs and trade in focus - We expect the campaign trail to include tough talk on trade with China. The U.S. economy's growth does not rely dramatically on trade, but the use of tariffs does present an inflationary risk. While such tactics were leveraged during former President Trump's term, they occurred within a much more benign inflation environment. We think tariff policies will instigate some trade war anxieties for the markets ahead, but we think domestic consumption and investment trends will be the more powerful influence on economic outcomes.

The Fed will move independent of the election - We are confident the Fed will act solely under the direction of incoming inflation and economic data. But the timing of such moves will likely occur around the election, with moderating inflation and softening employment conditions likely to support a case for a rate cut in the September–December window. We also could see some election-driven uncertainty around the future of Fed Chair Jerome Powell's role, if Trump were to propose a new Fed chief.

▶ Action for investors

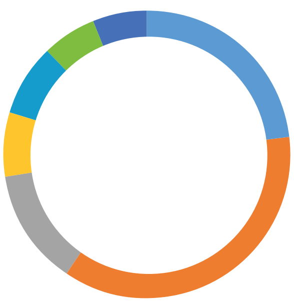
We recommend an overweight allocation to U.S. equities. Also, consider treating an election-driven market pullback as a buying opportunity.

An investment in equities involves risk. The value of your shares will fluctuate and you may lose principal.

Strategic asset allocation guidance

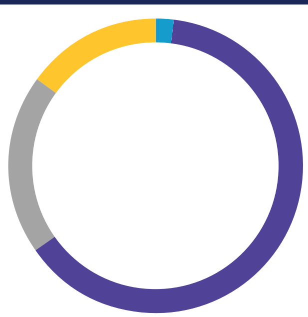
Our strategic asset allocation represents our view of balanced diversification for the fixed-income and equity portions of a well-diversified portfolio based on our outlook for the economy and markets over the next 30 years. The exact weightings (neutral weights) to each asset class will depend on the broad allocation to equity and fixed-income investments that most closely aligns to your comfort with risk and financial goals.

Equity diversification



- Emerging-market stocks
- Developed overseas small- and mid-cap stocks
- U.S. small- and mid-cap stocks
- Canadian mid-cap stocks
- Developed overseas large-cap stocks
- U.S. large-cap stocks
- Canadian large-cap stocks

Fixed-Income diversification



- Cash
- International high-yield bonds
- International investment-grade bonds
- Canadian investment-grade bonds

Investors should understand the risks involved in owning investments, including interest rate risk, credit risk and market risk. The value of investments fluctuates, and investors can lose some or all of their principal. The prices of small-cap, mid-cap and emerging-market stocks are generally more volatile than those of large company stocks. Special risks are inherent to international investing, including those related to currency fluctuations and foreign political and economic events.
Diversification does not guarantee a profit or protect against loss in declining markets

Opportunistic portfolio guidance

Our opportunistic portfolio guidance represents our timely investment advice based on our global outlook. We expect this guidance to enhance your portfolio's return potential, relative to our long-term strategic portfolio guidance, without taking on unintentional risk.

		Underweight	Neutral	Overweight
Asset allocation guidance				
Equity		•	•	●
Fixed income		●	•	•
Equity	Canadian large-cap stocks	●	•	•
	U.S. large-cap stocks	•	•	●
	Developed overseas large-cap stocks	•	●	•
	Canadian mid-cap stocks	•	●	•
	U.S. small- and mid-cap stocks	•	•	●
	Developed overseas small- and mid-cap stocks	•	●	•
	Emerging-market stocks	●	•	•
Fixed income	Canadian investment-grade bonds	•	●	•
	International bonds	●	•	•
	International high-yield bonds	•	●	•
	Cash	•	●	•
Equity sector guidance				
Communication services		•	●	•
Consumer discretionary		•	●	•
Consumer staples		•	●	•
Energy		•	●	•
Financial services		●	•	•
Health care		•	●	•
Industrials		•	•	●
Materials		●	•	•
Real estate		•	●	•
Information technology		•	●	•
Utilities		•	•	●
Canadian investment-grade bond guidance				
Interest rate risk (duration)		•	•	●
Credit risk		•	●	•

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Investment performance benchmarks

It's natural to compare your portfolio's performance to market performance benchmarks, but it's important to put this information in the right context and understand the mix of investments you own. Talk with your financial advisor about any next steps for your portfolio to help you stay on track toward your long-term goals.

As of June 30, 2024

Asset class performance	Year to date	3-year	5-year
Canadian large-cap stocks	6.1%	6.0%	9.3%
Canadian mid-cap stocks	11.0%	6.3%	9.0%
U.S. large-cap stocks	19.6%	13.8%	16.1%
U.S. small- and mid-cap stocks	6.2%	3.1%	9.3%
Developed overseas large-cap stocks	9.3%	6.0%	7.4%
Developed overseas small- and mid-cap stocks	4.7%	0.5%	5.1%
Emerging-market stocks	11.5%	-1.9%	4.0%
Canadian investment-grade bonds	-0.4%	-1.6%	-0.1%
International bonds	-0.2%	-2.0%	-0.1%
International high-yield bonds	7.1%	3.9%	3.6%
Cash	2.6%	3.1%	2.2%

Canadian equity sector performance	Year to date	3-year	5-year
Information technology	-1.0%	-8.3%	14.5%
Financials	4.3%	5.9%	9.7%
Consumer staples	8.3%	15.2%	11.6%
Consumer discretionary	3.0%	2.6%	8.3%
Communication services	-11.6%	-4.4%	0.4%
Health care	-3.6%	-33.9%	-29.1%
Industrials	7.3%	9.8%	11.5%
Materials	13.7%	6.4%	9.3%
Real estate	-4.1%	-3.4%	1.3%
Utilities	-0.9%	-1.9%	5.1%
Energy	14.1%	19.9%	13.3%

Source: Morningstar Direct, 6/30/2024. 3- and 5-year returns annualized. Equity sectors of the S&P/TSX Composite. Total returns in CAD. Canada Large-cap Stocks represented by the S&P/TSX Composite Index. U.S. small- and mid-cap Stocks represented by the Russell 2500 Index. International Bonds represented by the Bloomberg Global Aggregate Bond CAD Hedged Index. International high-yield represented by the Bloomberg Global High Yield Index. Canadian investment-grade bonds represented by the Bloomberg Canada Aggregate Bond Index. U.S. Large-cap stocks represented by the S&P 500 Index. Emerging Market Stocks represented by the MSCI EM Index. Overseas Large-cap Stocks represented by the MSCI EAFE Index. Canadian Mid-cap stocks represented by the S&P/TSX Completion Index. Overseas small- and mid-cap stocks represented by the MSCI EAFE SMID Index. Cash represented by the FTSE Canada 91 Day Treasury Bill Index. Past performance does not guarantee future results. An index is unmanaged and is not available for direct investment.

