GUARDIAN CAPITAL


## SUMMARY


- The pandemic has been a difficult and uncertain experience, but the development of effective vaccines to combat the spread of infection marked the beginning of the end, creating a viable path toward the better days ahead.
- The fact that there is more clarity about the road ahead than at any point over the last year, however, does not necessarily ensure that it will be a smooth and fast return to pre-crisis life.
- Indeed, the rise in infection rates over the last month and the resultant return to lockdowns in some regions just serves to emphasis that the global economy is far from being free and clear.
- With that all said, it appears that the world is moving closer to the beginning of the new beginning. And when the all-clear is finally signaled, there are fundamental reasons to anticipate that the global economy will be set to shift into a significantly higher gear.
- Accordingly, consensus forecasts for the current year have seen steady increases since the first announcement of successful vaccine phase trials back in November, with growth expected to be significantly above pre-crisis trend rates across the world (though, some regional variation is expected given the different speeds with which economies can reopen in earnest).
- This improving economic outlook, and the abundance of fiscal and monetary stimulus, has resulted in the anticipation that price pressures will become more pronounced and raised concerns that inflation expectations could become unmoored, creating a negative inflationary environment. While there is potential for inflationary pressures to rise, concerns that inflation is going to run excessively hot soon appear to be misplaced, much like they were coming out of the recession in 2009.
- The current environment will remain challenging and plagued by some persistent uncertainty and headline risk, which speaks to maintaining a bias toward higher-quality investments in the core of investment portfolios.
- The outlook, however, is looking increasingly positive and which would be supportive of tilting portfolio risk exposures toward those asset classes that stand to benefit from a cyclical upswing.

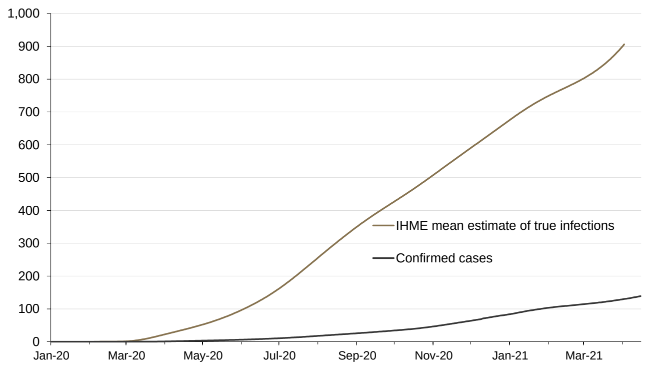
# Ebb and flow

It has now been more than a year since the World Health Organization (WHO) officially declared the novel coronavirus disease 2019 (COVID-19) a global pandemic on March 11, 2020.

There have been 130 million confirmed cases of COVID-19 worldwide, while estimates of the “true” infection rates suggest that total is actually more than 900 million (or more than 10% of the world’s population assessed to have had the virus).

### CHART 1: A GLOBAL REACH

**Cumulative cases of COVID-19, World**
(millions)

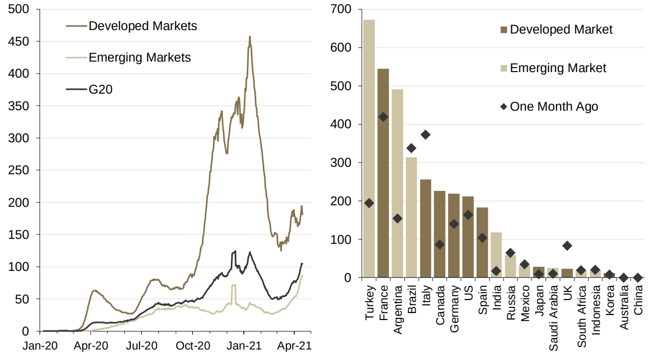



*Data to April 15, 2021*
*Source: Bloomberg, Our World in Data, Guardian Capital*

Case counts have ebbed and flowed over the last year, with each successive new wave to this point larger than the one before it. Unfortunately, it now appears that tide of new confirmed cases is once again turning for the worst in both Developed and Emerging Markets (DM and EM, respectively) alike.

### CHART 2: THE TIDE IS RISING AGAIN

**New confirmed cases of COVID-19, G20**
(confirmed cases per million people, seven-day moving average)

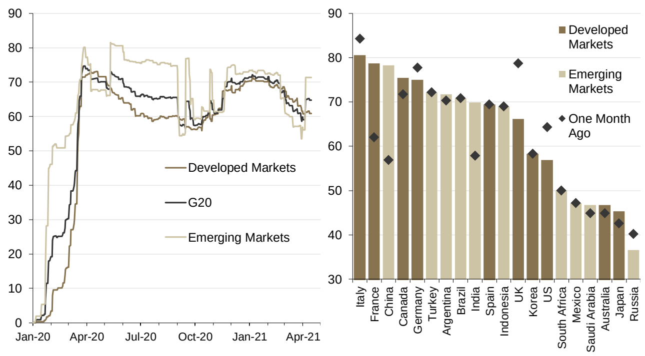



*(L) data to April 15, 2021; (R) data as at April 15, 2021*
*Source: Bloomberg, Our World in Data, Guardian Capital*

The flow of this new wave of contagion has forced governments (mainly in Europe and Canada) to reverse the easing in restrictions and once again institute lockdown measures in efforts to slow the rate of contagion and ease the pressures on already stretched healthcare systems.

### CHART 3: CLOSING UP SHOP AGAIN

**Government response stringency index[1], G20**
(index)




*(L) data presented are GDP-weighted averages of underlying country indices to April 15, 2021; (R) data as at April 15, 2021*
*Source: Oxford COVID-19 Government Response Tracker, Guardian Capital*

Of course, the public health benefits of the lockdowns come with significant cost. By restricting activity and forcing businesses to shutter operations, government stringency over the past year has had a pronounced effect on the global economy.

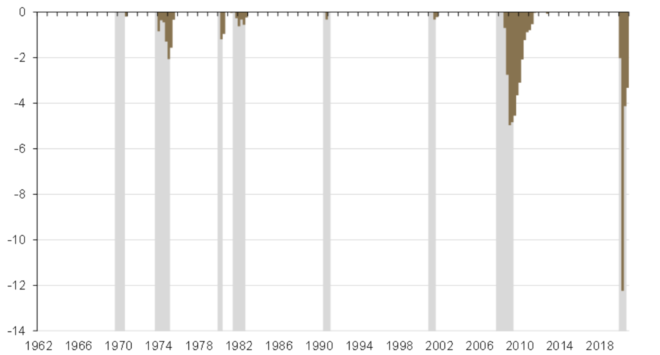
The initial wave of lockdowns that were put in place a year ago saw output across the G7 economies (Canada, France, Germany, Italy, Japan, the United Kingdom and the United States, which together

[1]This is a composite measure based on nine response indicators including school closures, workplace closures, and travel bans, rescaled to a value from 0 to 100 (100 =strictest).

account for about one-third of global output) plunge by 12%, more than doubling the hit from the aftermath of the financial crisis of 2008/09.

**CHART 4: A HISTORIC HIT**

**Real gross domestic product drawdown from peak, G7**
(percent)



*Data to Q4 2020; shaded regions represent periods of US recession*
*Source: IMF, OECD, Bloomberg, Guardian Capital*

Even though activity has rebounded off the lows, the persistence of restrictions continues to prevent a resumption of the normal way of life — and there remains a historically large gap that still needs to be refilled before we are just back to pre-crisis levels.

With that said, however, there are glimmers of hope even as this pandemic drags on.

## This time is different

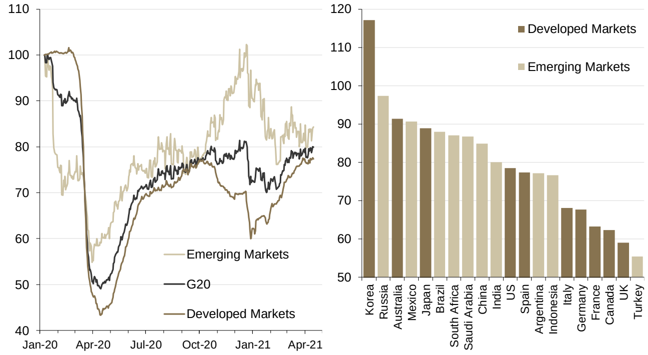
For starters, it appears that the economic restrictions are having a comparably modest impact on overall activity as economies are proving to be more resilient this time around.

It is the case that almost all G20 economies continue to operate below their pre-crisis levels, with those markets with the highest confirmed case counts and the tightest measures still in place (especially in Europe and Canada) lagging the most.

Even so, indicators compiled using alternative high frequency data such as mobility, energy consumption and public transportation usage show economies have not been derailed from their recovery tracks and activity is generally already back to pre-Fall-lockdown levels of activity.

**CHART 5: RESILIENCE IN THE FACE OF ADVERSITY**

**Bloomberg alternative high frequency activity indicators, G20**
(index; January 8, 2020 = 100)

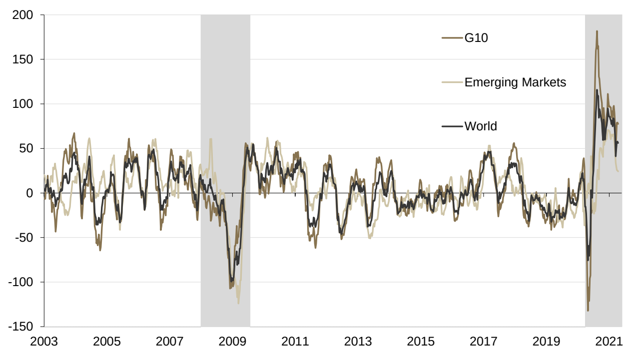



*(L) data presented are GDP-weighted averages of underlying country indices to April 15, 2021; (R) data as at April 15, 2021*
*Source: Bloomberg, Guardian Capital*

The more traditional macroeconomic data have persistently come in above market expectations globally too. Moreover, while earlier this reflected the dataflow not being as bad as the overly pessimistic forecasts, more recently the “hard” activity and “soft” survey data have been outright good in general and are besting what have proven to be cautiously optimistic expectations.

**CHART 6: A SURPRISING TURN OF EVENTS**

**Citi economic surprise index[2]**
(diffusion index; >0 denotes reports exceeding expectations)



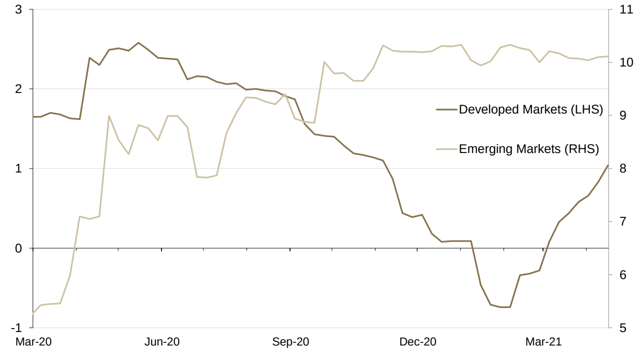

*Data to April 16, 2021; shaded regions represent periods of US recession*
*Source: Bloomberg, Guardian Capital*

The surprising underlying strength in the data has pushed forecasters to revise up their expectations for Q1 growth across the DM from the previously anticipated contraction to an expansion.

[2]The Citi Economic Surprise Index measures the pace at which economic indicators are coming in ahead of or below consensus forecasts.

**CHART 7: PROVISIONS FOR REVISIONS**

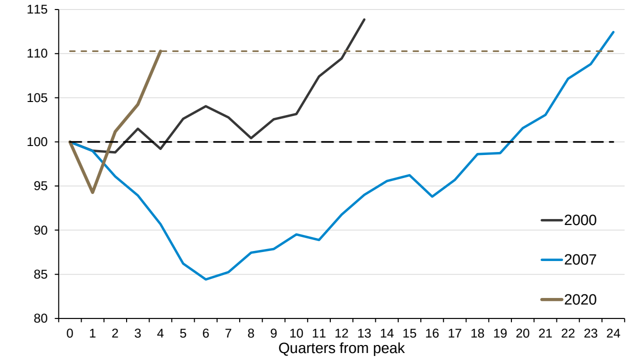
**Consensus forecasts for Q1 2021 real GDP growth**
(year-over-year percent change)




*Data to April 16, 2021*
*Source: Bloomberg, Guardian Capital*

**CHART 8: A WEALTH OF EXPERIENCE**

**US household net worth**
(index; pre-recession/crisis peak = 100)




*2000 peak = Q3 2000; 2007 peak = Q3 2007; 2020 peak = Q4 2019*
*Source: US Federal Reserve Board, Bloomberg, Guardian Capital*

The economic resilience in the face of adversity in part reflects the way households and businesses the world over have adapted to the pandemic during the past year, with lockdowns not crimping life to the same degree now as they did a year ago.

Beyond that, the key driver of the positive surprises has been the strength of consumers across the world. The general health of household finances, in spite of a crisis that forced millions into unemployment, is a big reason why the ultimate full recovery from this period is likely to be faster than experienced following the previous large-scale economic downturns.

For instance, US households needed a year to recoup the net worth hit when the Tech Bubble burst at the turn of the millennium, while the recovery from the Great Financial Crisis (GFC) took a full five years.

American households recovered the aggregate lost net worth from this crisis *in a single quarter*.

Moreover, at the end of 2020 net worth stood roughly 10% above the pre-crisis peaks — US households were not at that point until three years after the 2000 peak and six years after the 2007 peak.

Typically, consumer spending following a crisis/recession is subdued because households need to save more to rebuild lost wealth, which can constrain the speed of recovery — for example, consumer spending took three years to retain its prior peak following the GFC.

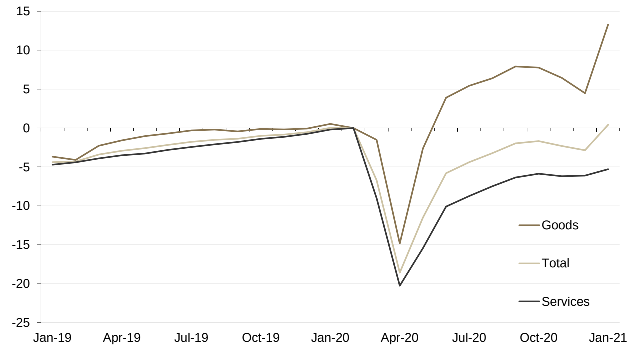
This go around, however, this is not an issue thanks to the sustained strength of the residential real estate markets, the accelerated recovery of global financial markets and the substantial transfers of cash by governments to households.

## Shopping spree

Indeed, it has been the case that despite COVID-19 stringency measures significantly constraining the availability of services on which DM consumers typically spend two-thirds of their budget, overall consumer spending has already returned to pre-crisis levels in the US on the strength of expenditure on tangible items for which brick-and-mortar shopping can be readily replaced by home delivery.

**CHART 9: IN NEED OF SERVICE**

**US nominal personal consumer expenditure**
(percent change since February 2020)



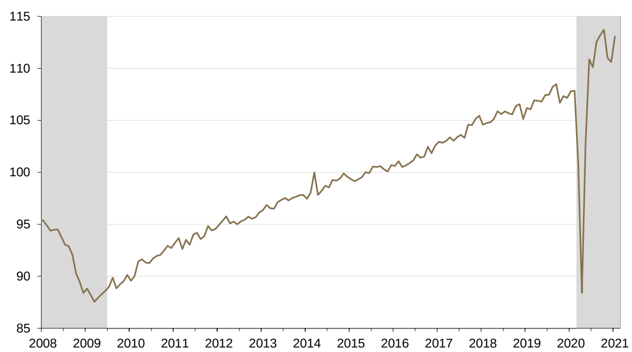

*Data to February 2021*
*Source: US Bureau of Economic Analysis, Bloomberg, Guardian Capital*

And this is not just an American phenomenon as it is very much the case that this momentum has been evident outside the US as well.

Retail sales across the G7 recovered from their March and April plunge in just two months and have maintained an upward trajectory so far in 2021.

**CHART 10: RETAIL RECOVERED**

**G7 retail trade volumes**
(index; 2015=100)



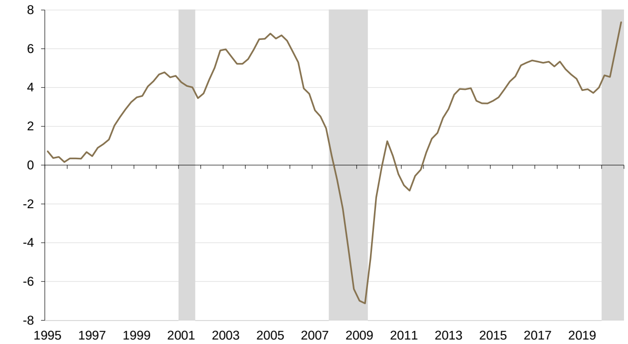

*Data to January 2021; shaded regions represent periods of US recession*
*Source: OECD, Bloomberg, Guardian Capital*

The combination of the positive financial position of households and a low interest rate environment has also served to underpin strength in housing markets globally.

Demand for homes has been such that prices have risen sharply across the G7, with the rate of price appreciation among the grouping ending 2020 at its highest in nearly three decades.

**CHART 11: HOME PRICES MOVIN' ON UP**

**G7 house price index**
(year-over-year percent change)

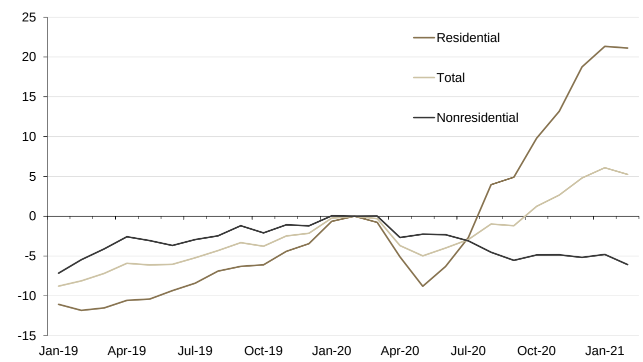



*Data to Q4 2020; shaded regions represent periods of US recession*
*Source: OECD, Guardian Capital*

Rising home prices are a clear draw for new residential construction. Combine that with the historically low supplies (even in absolute terms) and the fact that homebuilding lends itself well to social distancing protocols (so it can avoid shutdowns), and there has been ample support for investment in the area that has more than offset continued weakness in the nonresidential space to push total construction spending to new peaks.

**CHART 12: BUILDING MOMENTUM**

**US construction spending**
(percent change since February 2020)




*Data to February 2021*
*Source: US Census Bureau, Bloomberg, Guardian Capital*

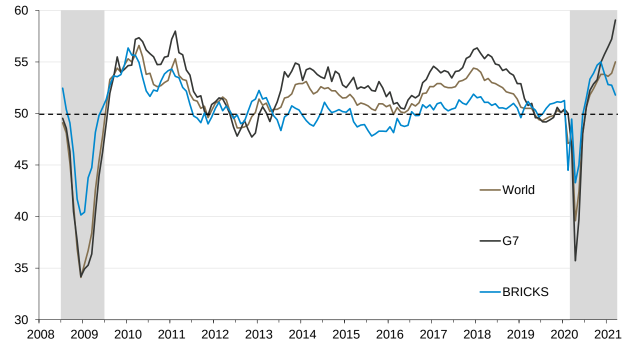
## Manufacturing's moment

The emphasis on consumer goods and housing has been a boon to manufacturing across the world, driving a resurgence in the once most important area of the global economy that had lost some luster in recent decades.

The global manufacturing purchasing managers' index (PMI) jumped to its highest level in a decade in March, indicating a historically rapid pace of improvement among the world's goods producers.

### CHART 13: FACTORIES ON FIRE

**Global manufacturing purchasing managers' indexes**
(index; >50 denotes expansion)

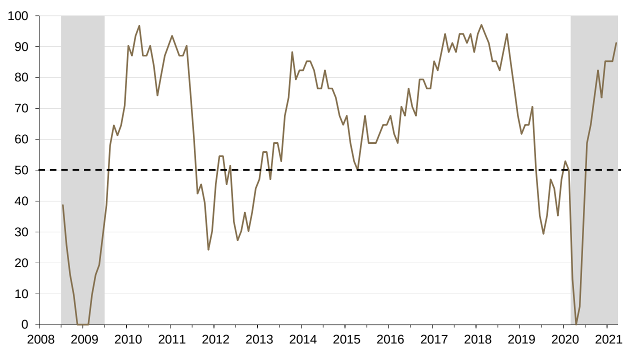



*Data to March 2021; shaded regions represent periods of US recession*
*Source: Bloomberg, Guardian Capital*

While the gains in March were driven by especially strong performance in the G7, the regional breadth of improvement in the factory sector was the best it has been in three years, with 31 of 34 (91%) of the countries tracked seeing their PMI above the growth break-even threshold in the month.

### CHART 14: NOT GASPING FOR BREADTH

**Share of countries with manufacturing PMI above 50**
(percent)



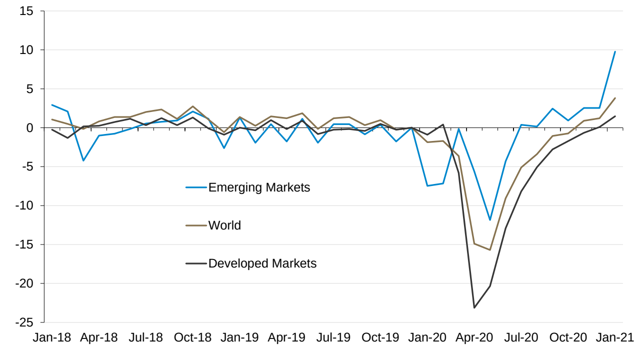
*Data to March 2021; shaded regions represent periods of US recession*
*Source: Bloomberg, Guardian Capital*

Moreover, the data are increasingly indicating that firms are struggling to keep pace with bulging order books amid dwindling inventories and having to rely on imports to meet demand.

International merchandise trade volumes — which had largely been stagnant since 2018 against the backdrop of heightened tensions and rising tariffs and other barriers — have rapidly rebounded from their crisis lows and now stand 4% above their previous peaks globally, with the EM reaping a good share of the new found strength.

### CHART 15: TRADE WINDS ARE BLOWING

**International trade/export volumes**
(percent change versus December 2019)

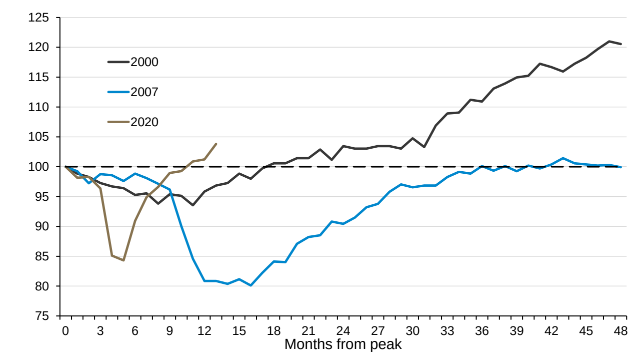



*Data to January 2021*
*Source: Netherlands' Centraal Planbureau, Bloomberg, Guardian Capital*

Such a recovery in global trade flows took one and a half years following the Tech Wreck and three years' post-GFC.

### CHART 16: TRADING PLACES

**International trade/export volumes**
(index; pre-recession/crisis peak = 100)




*Source: Netherlands' Centraal Planbureau, Bloomberg, Guardian Capital*

## Better living through chemistry

The biggest reason for hope for the days ahead, and the main reason to anticipate that there will be a lower likelihood of harsh broad and large-scaled lockdowns going forward, is the tremendous progress made with respect to vaccines.

Since the genome sequence for the novel coronavirus was made publicly available on January

[3]The Purchasing Managers Index (PMI) is a measure of the prevailing direction of economic trends in manufacturing.

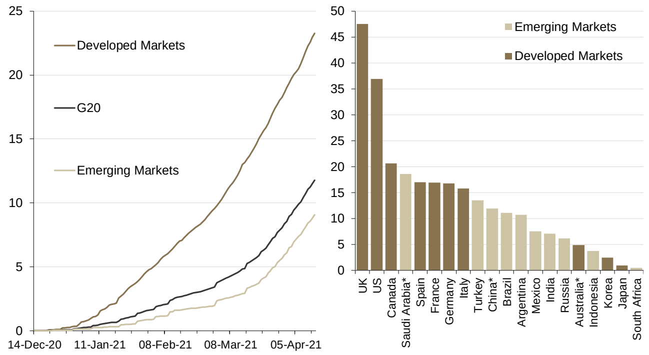
10, 2020, researchers have worked tirelessly to develop and test various potential preventatives and treatments for COVID-19 with tremendous success.

There are 10 different vaccines currently being administered around the world, and while it has taken some time to get the supply, distribution and administration up and running, inoculation programs are gathering momentum (albeit, some more successfully than others).

**CHART 17: KNOCKOUT JABS**

**Population with at least one COVID-19 vaccine dose, G20**

(percent of total)



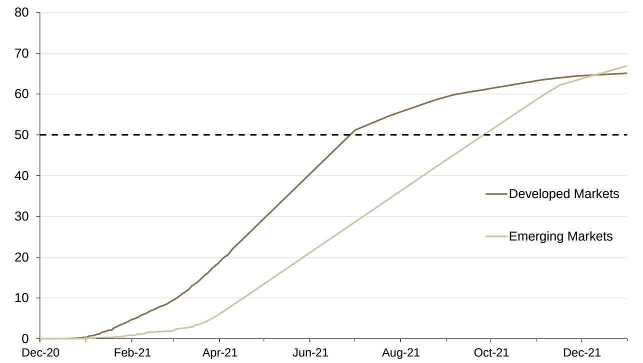

*(L) data to April 15, 2021; (R) data as at April 15, 2021; *denotes administered doses used in lieu of people*
*Source: Our World in Data, Bloomberg, Guardian Capital*

Clearly the ability to immunize the population to COVID-19 is the key to putting the pandemic in the rearview mirror and enabling economies to reopen in earnest. Based on the current pace of vaccination, more than half of the world's population may be able to receive a jab fairly soon — a simple projection would suggest around mid-year for most DM economies, with EM countries in the fall.

**CHART 18: LINING UP MY SHOT**

**Population with at least one COVID-19 vaccine dose, G20**

(percent of total)




*Forecasts based on projection forward average daily vaccination rates*
*Source: Our World in Data, Bloomberg, Guardian Capital*

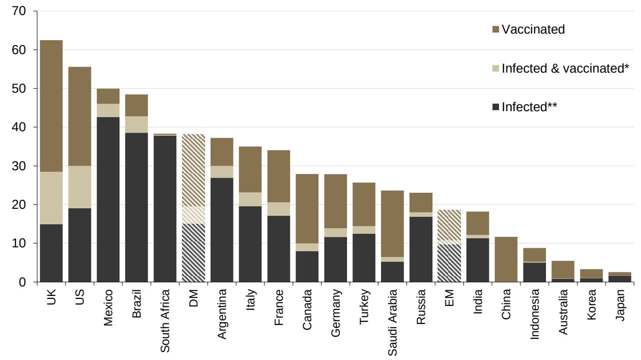
That said, vaccines are not the sole path to establishing herd immunity. While it would be preferable to avoid infection, a silver-lining of having contracted the disease is that people having prior infections of COVID-19 are considered to have developed natural immunity to the virus.

If these people (using the average of model estimates for "true" infections) are added to those that have received their jabs — and allowing for some overlap between the two groups (simply assuming that prior infection does not impact vaccination demand so that a country's vaccination rate is applied to the "infected" cohort) — the estimated share of the population that can already be considered immune doubles to 20% of the G20.

**CHART 19: MORE THAN ONE WAY TO SKIN A CAT**

**Estimated population with immunity to COVID-19, G20**

(percent of total)




**Simple assumption that prior infection does not impact vaccination decision, so overall vaccination rate applied to infected tally; **Infected is the average of the cumulative total infection mean estimates from ICL[4] and IHSE[5] "true" infection models less deaths attributed to COVID-19; data at April 12, 2021*
*Source: Our World in Data, Bloomberg, Guardian Capital*

This perspective would suggest a shorter timeline to reaching the 60% lower threshold that is considered consistent with herd immunity in the population than relying on vaccination alone. It also suggests that the pace of spread (and the rate of hospitalizations and death) could well be reduced significantly in the coming months even with the rolling back of lockdown measures (not to mention the fact that vaccinations so far have prioritized the higher-risk population).

One interesting issue in this, though, is that the regions that have done best at controlling contagion may well end up being victims of their own success.

The populations in the likes of China, Australia, Korea and Japan are far more dependent on vaccination to reach herd immunity — and the vaccine rollouts and uptake in these countries have lagged their harder hit peers, which could end up delaying the reopening of their economies to international travel and tourism.

## The waiting game

The end of the pandemic is clearly hotly awaited, but perhaps no group is more hopeful for this to end sooner rather than later than governments.

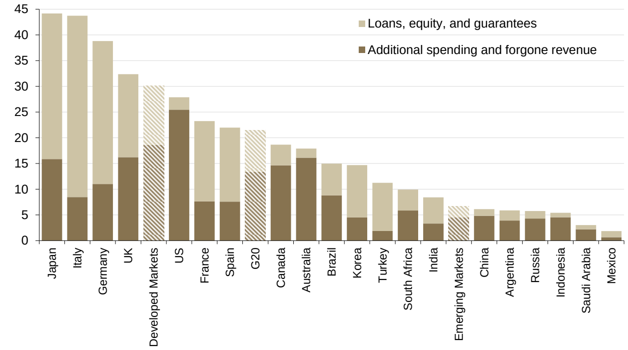
It has been alluded to already, but a significant factor underpinning the strength in household financial positions, and with it the recovery to date, has been the flood of fiscal support.

The International Monetary Fund (IMF) now estimates that the G20 have committed more than US$14 trillion (equivalent to one-fifth of the group's aggregated gross domestic product) to COVID-19-related relief measures and other initiatives (such as private loan payment deferral programs).

**CHART 20: QUITE THE RESPONSE**

**COVID-19 fiscal response, G20**

(percent of gross domestic product)




*Data as per the IMF's April 2021 Fiscal Monitor*
*Source: IMF, Guardian Capital*

While this unprecedented degree of fiscal stimulus has been necessary amid this crisis to help mitigate the adverse economic impact, it is not sustainable for governments to take a substantial share of their economies onto their balance sheet forever.

Such a situation would result in even more enormous public debt burdens than already prevail, funded by bond issuance that the market could not readily absorb.

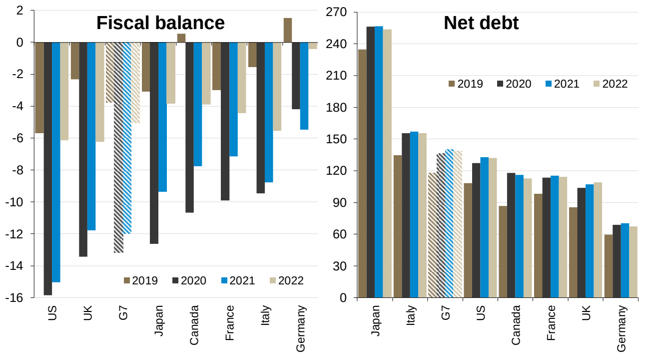
This is especially the case now, with governments already fiscally stretched after running pro-cyclical policies over much of the last decade in an effort to push economic growth into a higher gear.

[4] Imperial College London (ICL); [5] The Institute for Health Metrics and Evaluation (IHME)

**CHART 21: FAR FROM FISCAL FITNESS**

**General government fiscal balance and net debt, G7**

(percent of gross domestic product)




*Forecast data as per the IMF's April 2021 Fiscal Monitor*
*Source: IMF, Guardian Capital*

Ultimately, governments have little choice but to reopen their economies. Recent history has shown, however, that reopening too quickly in a pandemic can end up doing more harm than good, forcing the return to lockdown conditions down the road.

But with that said, there is significant reason to anticipate that the next phase forward will in fact be different than what has been experienced already.

The potential for case counts (and particularly severe cases) to be constrained thanks to population immunity would give governments' assurance about easing restrictions to a greater degree sooner and would instill confidence among consumers and businesses to re-engage with the economy fully.

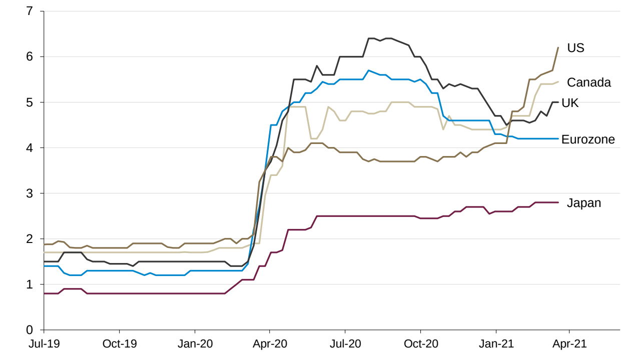
Add that the economic momentum is starting from a better-than-anticipated spot due to the surprising resilience to the latest round of tightening in economic restrictions, while more fiscal stimulus is in the process of making its way into the system and the coming 12 months are looking as though they will be significantly better than the last.

This viewpoint is being echoed in consensus forecasts for the current year, which have been seeing steady increases since the first announcement of successful vaccine phase trials back in November. The success of the vaccination program, combined with added fiscal stimulus, has put the US on top, with Canada, purely by virtue of its proximity and relationship to the US, close behind. Europe's struggles with both containing the virus and getting vaccines in arms, combined with the region's relatively high dependence on tourism, have seen its prospects comparatively diminish of late (though expectations are still for growth at a rate well above pre-crisis trends).

**CHART 22: ONWARDS & UPWARDS**

**Consensus forecasts for 2021 real GDP growth**

(year-over-year percent change)




*Data to April 16, 2021*
*Source: Bloomberg, Guardian Capital*

As well, there remains scope for further material upgrades to the outlook as more clarity arises and the confidence bands narrow as the weight assigned to the negative "left tail risk" scenarios further diminish — though, these risks cannot be completely ignored given the persistent uncertainties around the variants of the coronavirus.

## Inflated sense of self-worth

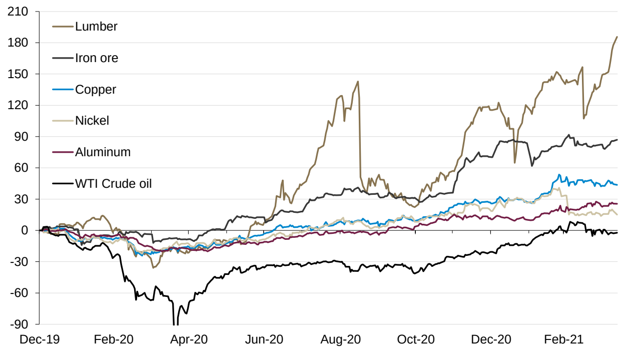
While these developments are clearly positive and constructive for the outlook — notwithstanding some near-term softness as re-openings are delayed amid rising case counts — there are some resultant adjustments to this more sanguine forecast horizon that have proven less than ideal for markets.

Concerns over a prolonged unemployment-induced lack of demand have been replaced by expectations of an imminent wave of stimulus and savings/wealth-driven pent up spending and investment being unleashed at a time when supply chains are still trying to play catchup from earlier shutdowns — an issue that was done no favours by a ship getting stuck in the Suez Canal for a week and blocking of a key artery for global trade.

To this point, the supply/demand imbalances have not translated into much by way of passthrough to consumers. Still, it is undeniable that there are growing signs that cost pressures are rising, as evidenced by the continued move higher in raw material prices that show little signs of ebbing.

**CHART 23: MATERIAL INCREASES**

**Generic first commodity futures contract prices**
(percent change versus December 2019)

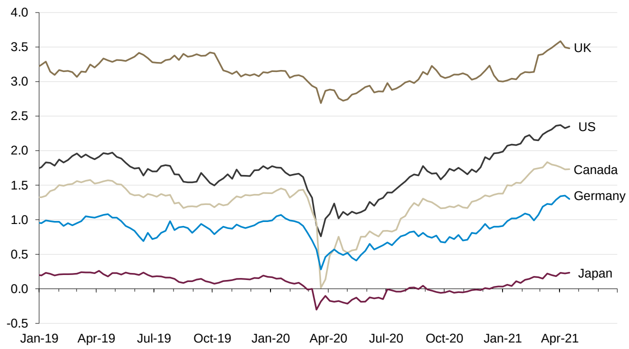



*Data to April 16, 2021*
*Source: Bloomberg, Guardian Capital*

With the growing anticipation that demand is going to strengthen further, and businesses looking to restore profit margins amid the more favourable conditions for sellers, there has been a dramatic shift in recent months in market expectations for inflation, which went from effectively pricing in protracted disinflation, or even deflation, to a return to more normal longer-term levels in rapid fashion.

**CHART 24: I'M EXPECTING MORE FROM YOU**

**10-year break-even inflation rate**
(percent)

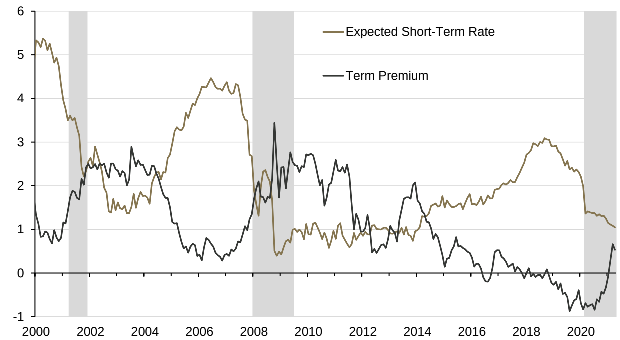



*Data to April 16, 2021*
*Source: Bloomberg, Guardian Capital*

The increased need for bond investors to receive compensation for the impact of inflation on eroding the future purchasing power of money has been a prominent factor in longer-term market interest rates rising fairly sharply to levels last seen before the pandemic hit. The increase can be attributed purely to a rise in the term premium rather than an increase in policy rate expectations.

**CHART 25: LOSS OF (DE)COMPOSURE**

**Decomposition of nominal US 10-year Treasury note yield**
(percent)




*Data to April 16, 2021; shaded regions represent periods of US recession*
*Source: Bloomberg, Guardian Capital*

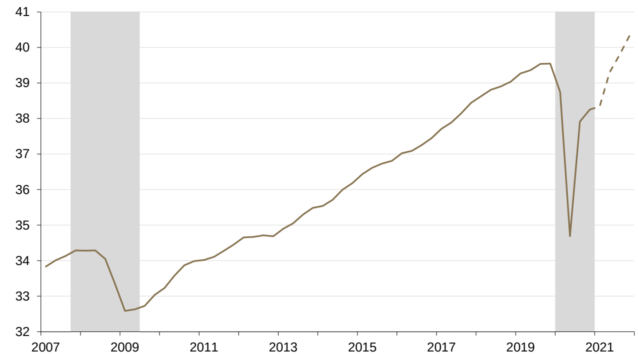
The speed of this repricing has been fairly drastic (and painful for fixed income investors) and has raised concerns that inflation expectations could become unmoored, creating a negative (hyper)inflationary environment that would spur an aggressive response from policymakers.

While such a scenario is not completely outside of the realm of possibility, it is important to not to put the cart in front of the horse.

While economic momentum appears to be improving, there is still considerable lost ground to recover — the recent upgrades to consensus forecasts still do not imply G7 economic output will retake its pre-crisis peaks until the end of 2021.

**CHART 26: TAKE ME BACK TO THE START**

**G7 real gross domestic product**
(trillions of 2015 US dollars)

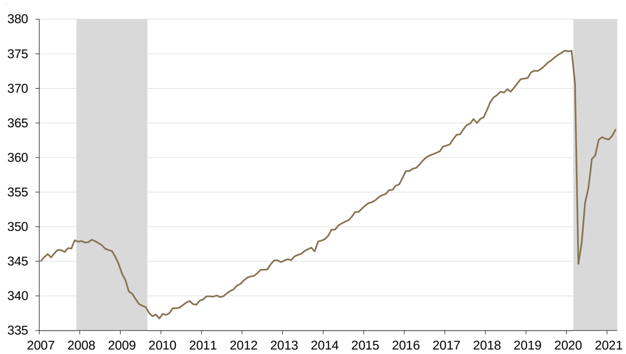



*Dashed line represents 2021 forecast based on Bloomberg consensus for G7 as at April 16, 2021; shaded regions represent periods of US recession*
*Source: OECD, IMF, Bloomberg, Guardian Capital*

Further to this point, there is ample slack in labour markets with employment across the G7 still lower than its year-ago peak by more than 11 million.

**CHART 27: SO CLOSE, YET SO FAR**

**G7 Total Employment**
(millions)




*Data to March 2021; shaded regions represent periods of US recession*
*Source: Bloomberg, Guardian Capital*

For sure, businesses being permitted to reopen will go some ways to help close that gap (note that more than 11 million Americans reported in March that they were unable to work "*because their employer closed or lost business due to the coronavirus pandemic*" in March), but it will still be a while before not only these would-be workers are fully reabsorbed into the economy, but the new entrants to job market that have been sidelined over the past year are able to find gainful employment as well.

In addition to these cyclical factors that serve to mitigate the upward pressures on prices, the structural disinflationary forces that were present prior to the pandemic have not gone anywhere.

Demographics (specifically the aging of populations worldwide), the spread of technology-driven declines in the cost of production, the increased integration of supply chains driven by globalization, and improved methods of price discovery which constrain the ability to raise prices known, i.e. the "Amazon Effect" where online shopping makes it easier for consumer to compare prices for goods & services, all remain.

In other words, while there is potential for upward price pressures to continue, concerns that inflation is going to run excessively hot soon appear to be misplaced, much like they were coming out of the recession in 2009.

## Policy prescription

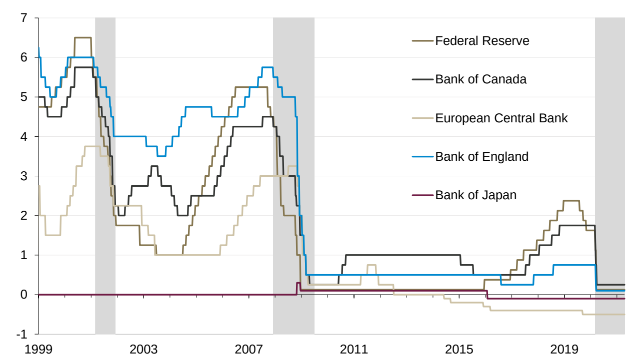
Central banks are clearly going to keep an eye on inflation and what it means for price stability, but policymakers have made considerable efforts to emphasize that they are placing more importance on meeting their "full employment" objectives.

Indeed, there is a general willingness to err on the side of caution until this tumultuous period is well and truly spoken of in the past tense, even if it means accepting above-target inflation for a while.

That means that policy rates are expected to remain at their current "effective lower bounds" for the foreseeable future.

**CHART 28: LESS THAN ZERO**

**Central bank policy rates**
(percent)




*Data to April 16, 2021; shaded regions represent periods of US recession*
*Source: Bloomberg, Guardian Capital*

But while policy is unlikely to change soon on the rates front, central banks are likely to adjust their asset purchase programs in the coming months.

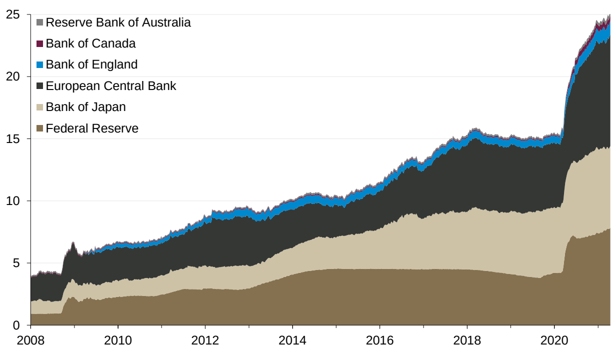
It is the stock, not the flow, of assets on a monetary authority's balance sheet that is stimulative and expanding holdings represents adding stimulus to the system. While there is not impetus to remove this stimulus yet through shrinking balance sheets, the current economic momentum does not necessarily support adding stimulus either.

Accordingly, there are growing expectations for the likes of the Bank of Canada and the US Federal Reserve to begin to scale back their pace of asset purchases in the coming months (others to follow at a later time) so as stop their balance sheets from expanding further.

Major central banks now hold US$25 trillion worth of bonds, equal to nearly 40% of the Bloomberg Barclays Global Bond Index's market value, which means that they will clearly remain a formidable presence in global bond markets.

**CHART 29: BLOATED BALANCE SHEETS**

**Central bank asset holdings**
(trillions of US dollars)



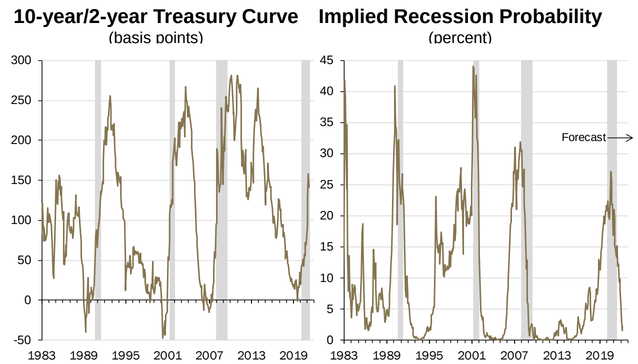

*Data to April 16, 2021*
*Source: Bloomberg, Guardian Capital*

An imminent slowing in purchases at a time when governments are issuing sizable amounts of debt to finance their yawning deficits, however, suggests that their influence over the longer-end of the curve is likely to wane.

Accordingly, markets look to become increasingly influenced by the firmer outlook for growth and inflation that has been supporting the increase in long-term interest market rates.

Simply put, even after the sharp increase through Q1, the path of least resistance for rates over the coming months appears to be higher still, with the yield curve continuing to steepen in the process in another positive sign for the recovery progressing.

**CHART 30: RECESSION ODDS RECEDED**



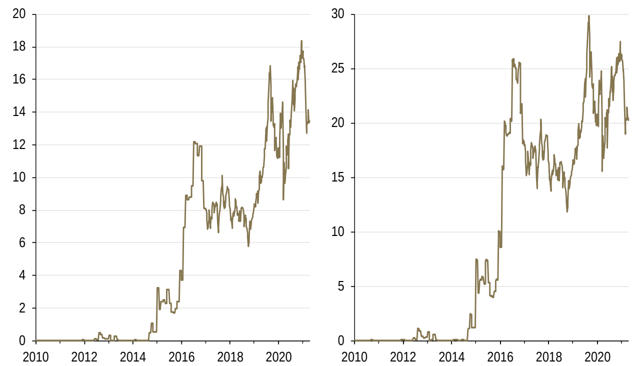

*Data to April 16, 2021; shaded regions represent periods of US recession*
*Source: Bloomberg, Guardian Capital*

## Indecent exposures

Any rise in market interest rates is likely to be quite benign from a historical perspective. However, the still-low yields on offer from government bonds provide minimal cushion for even a small rise in market rates — and that's providing a government debt issue has a positive carry to begin with, as there is still more than US$13 trillion worth of bonds trading at negative yields.

**CHART 31: NEGATIVE SPACE**

**Bloomberg Barclays global negative yielding debt**
(trillions of dollars) (% of global market value)



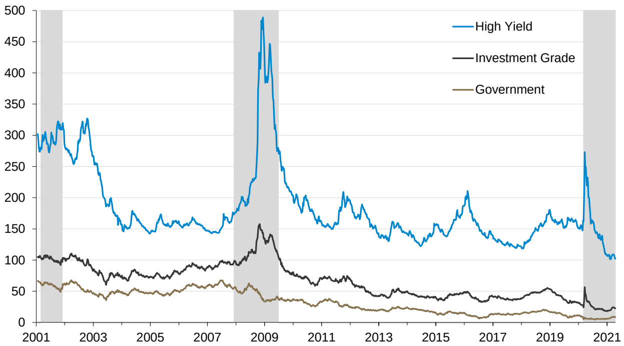

*Data to April 16, 2020*
*Source: Bloomberg, Guardian Capital*

As such, there is not exactly a particularly strong argument in favour of positions in government bonds at the moment outside of the (still relevant) role as a diversifier and insurance policy for equity portfolios.

There is better protection from rising interest rates in corporate credit, which offer higher yields and lower average duration, making it a somewhat more compelling asset class in the fixed income space.

**CHART 32: MORE CUSHION FOR THE PUSHIN'**

**Global bond yield-to-duration**
(basis points)



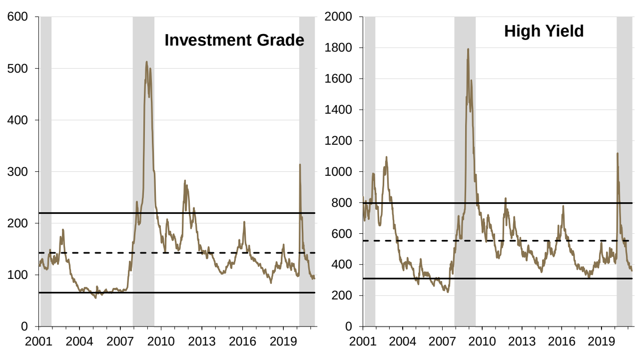

*Data to April 16, 2020; rise in yields required to wipe out 1-year total return*
*Source: Bloomberg, Guardian Capital*

Even here, however, the level of yields and relative valuations do not suggest that there is a tremendous amount of upside in the asset class.

For example, corporate bond yield spreads over government bonds have continued to narrow significantly from the crisis highs and are re-testing the recent pre-pandemic lows.

**CHART 33: SPREAD THIN**

**Global option-adjusted bond yield spreads**
(basis points)



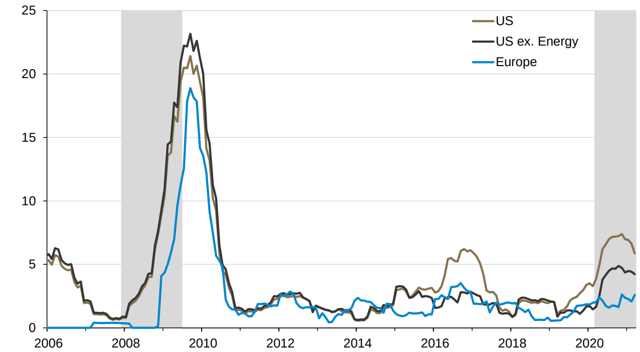

*Data to April 16, 2021; shaded regions represent periods of US recession; dashed line is series average; black lines are +/-1 standard deviation*
*Source: Bloomberg, Guardian Capital*

History shows that spreads can tighten further, which would underpin performance even in the face of rising sovereign yields — and an environment of strengthening growth and easy financial conditions would appear to be supportive of such an outcome.

On this score, the indications that High Yield default rates have turned in their cycle high and begun to trend lower is a positive development that will go some way toward easing concerns about trends in credit quality and lowering credit risk premia.

**CHART 34: DEFAULT SETTING**

**High Yield bond par-weighted default rate**
(percent)

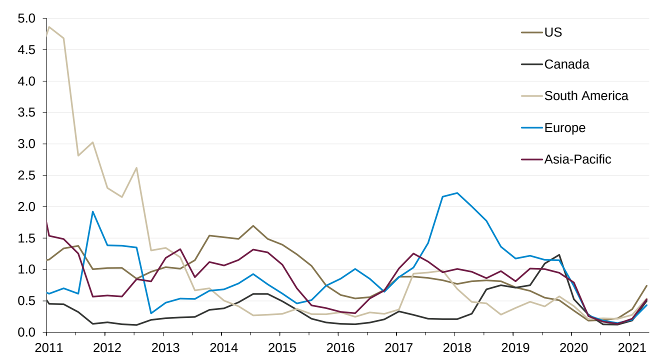



*Data to March 2021; shaded regions represent period of US recession*
*Source: Bank of America Merrill Lynch, Guardian Capital*

More broadly, the tide has evidently turned for the better in terms of assessments on the outlooks for corporate issuers. The ratio of credit rating upgrades-to-downgrades has uniformly improved in recent months across the all regions globally.

**CHART 35: (UP)GRADING ON A SCALE**

**Ratio of S&P credit ratings upgrade-to-downgrades**
(ratio; 12-month moving average)




*Data to April 16, 2021*
*Source: Bloomberg, Guardian Capital*

## There is no alternative

The rising rate environment of late has served as a headwind for equities as well — which should be unsurprising given the value of a stock is derived from the cash flows that the underlying company is able to generate both now and in the future, and higher interest rates reduce the present value of those future cash flows.

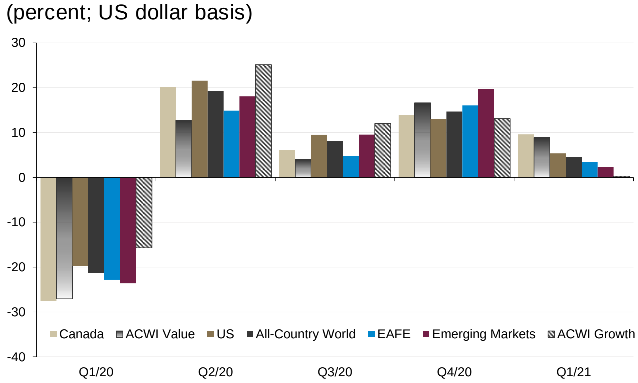
Those companies that are valued predominantly based on their prospects have been impacted more by the up-move in the rates market, which has factored in a rotation in the market where the "growth" oriented areas of the market that had previously flourished over the last year have underperformed their peers.

The upgrades to the economic outlook have provided a lift to market expectations that have more-than-offset any rate-related negatives, especially for the more cyclically-sensitive sectors (that typically fall into "value" stock categories).

The net result is that, while there has been sustained broad-based positive performance across strategies and geographies since the crisis lows, the more cyclical and "value"-centric markets such as Canada have taken a leading role after lagging during the downturn and the early recovery.

**CHART 36: SHIFTING GEARS**

**MSCI country and style index quarterly performance**
(percent; US dollar basis)

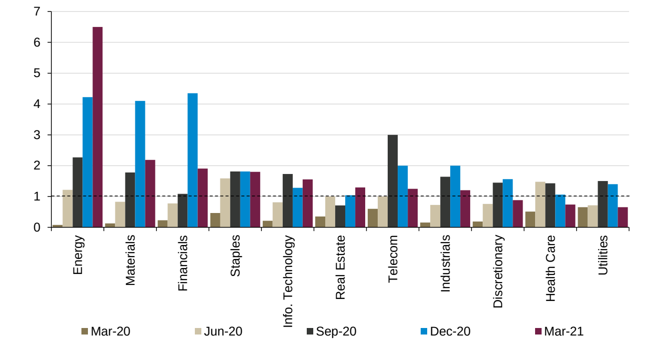



*Data to March 31, 2021*
*Source: Bloomberg, Guardian Capital*

There is further scope for these recent trends to continue in equity markets, as earnings momentum still clearly favours those sectors most aligned to the economic cycle. For instance, earnings for the natural resource sectors and Financials (for whom net interest margins also benefit from the steepening in yield curve) are undergoing the biggest upward revisions from analysts.

**CHART 37: UPON REVISION**

**One-month analyst earnings per share revision ratio**
(ratio of upgrades-to-downgrades)



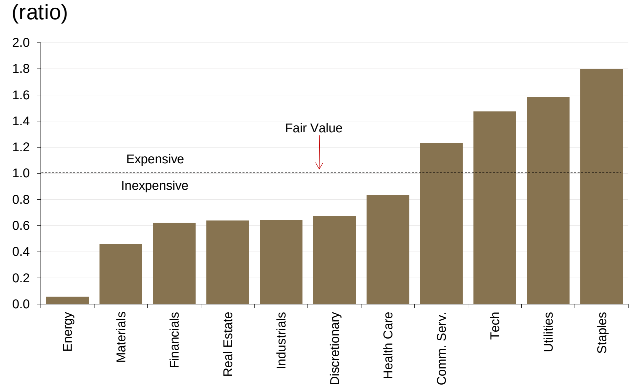

*Data to March 2021*
*Source: Bank of America Merrill Lynch, Guardian Capital*

That said, there remains a wider than normal confidence interval around earnings expectations in general, and for cyclicals especially, given the ongoing uncertainties over the outlook.

As such, it is the case that these sectors justifiably continue to trade at fairly sizable discounts to their current earnings forecasts while the more COVID-19 resistant areas like Tech and Communication Services, that offer better earnings visibility, trade at a relative premium.

**CHART 38: GROWTH PROSPECTS**

**MSCI ACWI sector forward price-to-earnings-to growth* ratio**
(ratio)

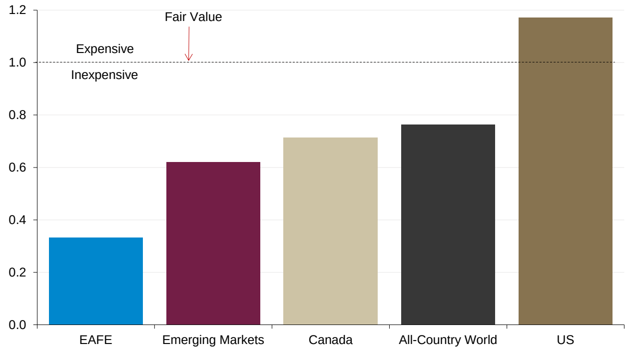



*Data as at April 16, 2021; *compound annualized growth rate of earnings forecasts to 2023*
*Source: Bloomberg, Guardian Capital*

The sector breakdowns are compounded by the differences in the regional outlooks, with the Tech-heavy skew of the American stock market, the greater progress with respect to vaccination and relatively stronger economic growth prospects providing fundamental reasons for the US to demand a premium over its international peers relative to consensus earnings expectations.

**CHART 39: ROOM FOR GROWTH**

**Forward price-to-earnings-to growth* ratio**
(ratio)




*Data as at April 16, 2021; *compound annualized growth rate of earnings forecasts to 2023*
*Source: Bloomberg, Guardian Capital*

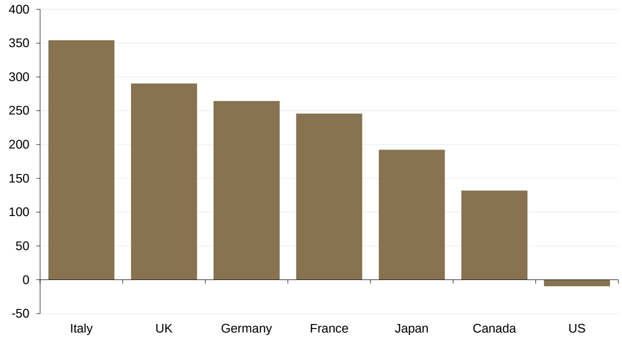
But should the increasingly sanguine forecasts come to fruition, the stage would appear to be set for markets to have scope to play catchup to the US.

Add to that the fact that stocks markets outside of the US provide superior yield pickup opportunities, especially in relation to their domestic bond markets.

The dividend yields offered in broad stock markets remain well above the yields available on domestic fixed income — and that is not even adopting a bias to companies paying above-average dividends.

**CHART 40: OVER AND ABOVE**

**Stock market dividend yield versus bond index* yield**
(basis points)




*Data as at April 16, 2021; *stock market=MSCI country index; bond market = Bloomberg Barclays aggregate country index*
*Source: Bloomberg, Guardian Capital*

Moreover, the improving outlook could support companies to resume growing dividends, providing additional support to those more income-oriented stocks and helping to reduce embedded risk premia.

## The beginning of the new beginning

The pandemic has been a difficult and uncertain experience, but the development of effective vaccines to combat the spread of infection marked the beginning of the end, creating a viable path toward the better days ahead.

The fact that there is more clarity about the road ahead than at any point over the last year, however, does not necessarily ensure that it will be a smooth and fast return to pre-crisis life.

Indeed, the rise in infection rates over the last month and the resultant return to lockdowns in some regions just serves to emphasis that the global economy is far from being free and clear.

With that said, it appears that the world is moving closer to the beginning of the new beginning. And when the all-clear is finally signaled, there are fundamentals reasons to anticipate that the global economy will be set to shift into a significantly higher gear.

The current environment will remain challenging and plagued by some persistent uncertainty and headline risk, which speaks to maintaining a bias toward higher-quality investments in the core of investment portfolios to help mitigate near-term volatility.

The outlook, however, is looking increasingly positive and which would be supportive of tilting portfolio risk exposures toward those asset classes that stand to benefit from a cyclical upswing.

## Balanced fund summary views

| Equities | + | Fixed Income | — |
|---|---|---|---|
| Canadian Equity | + | Government Bonds | — |
| US Equity | + | Investment Grade Credit | + |
| EAFE Equity | Neutral | High Yield Credit | Neutral |
| Emerging Markets | + | | |

*Source: Guardian Capital as at April 16, 2021*

## Market Returns at March 31, 2021 All returns in CAD unless noted otherwise.

### CANADIAN EQUITIES

| INDEX RETURNS (%) | 1 Mo | 3 Mos | YTD | 1 Yr | 5 Yrs | 10 Yrs |
|---|---|---|---|---|---|---|
| S&P/TSX Composite | 3.9 | 8.1 | 8.1 | 44.2 | 10.1 | 6.0 |
| S&P/TSX 60 | 4.4 | 8.8 | 8.8 | 40.9 | 10.6 | 6.5 |
| S&P/TSX Completion | 1.9 | 5.4 | 5.4 | 58.8 | 8.4 | 4.5 |
| S&P/TSX SmallCap | -0.2 | 9.7 | 9.7 | 100.2 | 9.0 | 1.8 |
| S&P/TSX Composite High Dividend | 6.6 | 14.4 | 14.4 | 46.1 | 8.6 | 6.0 |
| S&P/TSX Composite Dividend | 6.0 | 9.1 | 9.1 | 39.1 | 9.3 | 6.4 |

**S&P/TSX SECTOR RETURNS (%)**

| | | | | | | |
|---|---|---|---|---|---|---|
| Communication Services | 7.5 | 7.1 | 7.1 | 12.2 | 6.4 | 10.7 |
| Consumer Discretionary | 6.2 | 12.5 | 12.5 | 96.0 | 10.9 | 12.7 |
| Consumer Staples | 9.4 | 2.5 | 2.5 | 17.9 | 6.2 | 14.3 |
| Energy | 7.2 | 20.3 | 20.3 | 40.6 | 0.3 | -2.7 |
| Financials | 6.7 | 13.9 | 13.9 | 46.7 | 11.5 | 10.0 |
| Health Care | -2.6 | 38.0 | 38.0 | 69.1 | -6.8 | -6.0 |
| Industrials | 4.6 | 6.6 | 6.6 | 46.9 | 16.6 | 14.0 |
| Information Technology | -9.3 | -1.1 | -1.1 | 85.7 | 32.5 | 14.9 |
| Materials | 1.0 | -6.9 | -6.9 | 39.0 | 10.0 | -2.3 |
| Real Estate | 3.2 | 10.0 | 10.0 | 40.3 | 7.6 | 9.7 |
| Utilities | 6.2 | 3.4 | 3.4 | 25.9 | 12.2 | 8.6 |

### U.S. EQUITIES

| INDEX RETURNS (%) | 1 Mo | 3 Mos | YTD | 1 Yr | 5 Yrs | 10 Yrs |
|---|---|---|---|---|---|---|
| S&P 500 | 3.6 | 4.7 | 4.7 | 38.1 | 15.6 | 16.9 |
| Dow Jones Industrial Average | 6.0 | 6.8 | 6.8 | 35.8 | 15.3 | 16.0 |
| NASDAQ | -0.3 | 1.4 | 1.4 | 51.9 | 21.4 | 19.9 |
| Russell 1000 | 3.0 | 4.5 | 4.5 | 41.8 | 15.9 | 16.9 |
| Russell 2000 | 0.3 | 11.2 | 11.2 | 72.1 | 15.6 | 14.6 |
| Russell 3000 | 2.8 | 4.9 | 4.9 | 43.5 | 15.9 | 16.8 |
| Russell 1000 Growth | 1.0 | -0.4 | -0.4 | 43.7 | 20.3 | 19.7 |
| Russell 1000 Value | 5.1 | 9.8 | 9.8 | 37.8 | 11.0 | 13.9 |

**S&P 500 SECTOR RETURNS (%)**

| | | | | | | |
|---|---|---|---|---|---|---|
| Communication Services | 2.4 | 6.6 | 6.6 | 42.1 | 9.5 | 13.3 |
| Consumer Discretionary | 2.9 | 1.7 | 1.7 | 50.4 | 17.1 | 20.6 |
| Consumer Staples | 7.4 | -0.2 | -0.2 | 13.4 | 7.5 | 14.6 |
| Energy | 2.0 | 29.1 | 29.1 | 54.7 | -1.4 | 1.0 |
| Financials | 5.0 | 14.4 | 14.4 | 47.9 | 14.9 | 15.0 |
| Health Care | 3.2 | 1.8 | 1.8 | 18.4 | 12.9 | 18.6 |
| Industrials | 8.1 | 9.9 | 9.9 | 49.8 | 13.0 | 15.2 |
| Information Technology | 1.0 | 0.6 | 0.6 | 47.1 | 26.8 | 23.6 |
| Materials | 6.8 | 7.6 | 7.6 | 57.4 | 13.6 | 12.3 |
| Real Estate | 6.0 | 7.6 | 7.6 | 16.6 | N/A | N/A |
| Utilities | 9.7 | 1.4 | 1.4 | 5.5 | 8.2 | 14.2 |

### INTERNATIONAL EQUITIES

| INDEX RETURNS (%) | 1 Mo | 3 Mos | YTD | 1 Yr | 5 Yrs | 10 Yrs |
|---|---|---|---|---|---|---|
| MSCI World Index (Net, C$) | 2.6 | 3.5 | 3.5 | 36.0 | 12.6 | 12.7 |
| MSCI EAFE Index (Net, C$) | 1.6 | 2.1 | 2.1 | 27.7 | 8.2 | 8.3 |
| MSCI ACWI (C$) | 1.9 | 3.2 | 3.2 | 36.5 | 12.5 | 12.0 |
| MSCI France (C$) | 1.9 | 3.0 | 3.0 | 32.5 | 9.3 | 8.0 |
| MSCI Germany (C$) | 3.3 | 2.8 | 2.8 | 40.6 | 7.3 | 7.9 |
| MSCI Japan (C$) | 0.3 | 0.2 | 0.2 | 23.4 | 9.8 | 10.0 |
| MSCI U.K. (C$) | 2.0 | 4.8 | 4.8 | 17.9 | 3.7 | 6.0 |
| S&P/IFC Investable (Emerging Markets) | -1.9 | 1.3 | 1.3 | 41.0 | 11.6 | 7.0 |
| MSCI EAFE Growth (Gross, C$) | 0.5 | -1.8 | -1.8 | 26.3 | 10.6 | 10.4 |
| MSCI EAFE Value (Gross, C$) | 2.7 | 6.2 | 6.2 | 29.3 | 6.5 | 7.0 |

### INTERNATIONAL EQUITIES

| MSCI EAFE SECTOR RETURNS (%) | 1 Mo | 3 Mos | YTD | 1 Yr | 5 Yrs | 10 Yrs |
|---|---|---|---|---|---|---|
| Communication Services | -0.2 | 2.5 | 2.5 | 26.0 | 3.2 | 7.3 |
| Consumer Discretionary | 2.9 | 4.4 | 4.4 | 47.7 | 9.8 | 11.2 |
| Consumer Staples | 3.8 | -3.9 | -3.9 | 5.0 | 4.3 | 9.9 |
| Energy | -2.1 | 9.1 | 9.1 | 10.9 | 2.7 | 0.7 |
| Financials | 1.6 | 8.2 | 8.2 | 36.1 | 6.1 | 6.3 |
| Health Care | 0.3 | -5.2 | -5.2 | 3.7 | 7.4 | 12.3 |
| Industrials | 2.6 | 4.0 | 4.0 | 40.3 | 10.5 | 9.3 |
| Information Technology | 0.5 | 1.1 | 1.1 | 41.1 | 17.4 | 12.9 |
| Materials | -0.1 | 3.8 | 3.8 | 53.1 | 15.1 | 6.2 |
| Real Estate | 1.1 | 1.1 | 1.1 | 16.4 | N/A | N/A |
| Utilities | 3.3 | -3.9 | -3.9 | 13.2 | 7.8 | 6.3 |

Sources: Bloomberg Finance L.P., FTSE Bond Analytics, TD Securities, Thomson Financial

## Market Returns at March 31, 2021 All returns in CAD unless noted otherwise.

### CANADIAN FIXED INCOME

| INDEX RETURNS (%) | 1 Mo | 3 Mos | YTD | 1 Yr | 5 Yrs | 10 Yrs |
|---|---|---|---|---|---|---|
| FTSE Canada 91 Day TBill | 0.0 | 0.0 | 0.0 | 0.2 | 1.0 | 0.9 |
| FTSE Canada Short Term Overall Bond | 0.1 | -0.6 | -0.6 | 2.8 | 2.1 | 2.4 |
| FTSE Canada Mid Term Overall Bond | -1.0 | -4.5 | -4.5 | 1.7 | 2.7 | 4.4 |
| FTSE Canada Long Term Overall Bond | -3.9 | -10.7 | -10.7 | -0.2 | 3.8 | 6.0 |
| FTSE Canada Universe Bond | -1.5 | -5.0 | -5.0 | 1.6 | 2.8 | 4.0 |
| FTSE Canada High Yield Overall Bond | 0.2 | 2.2 | 2.2 | 19.9 | 9.0 | 5.8 |
| FTSE Canada Real Return Bond Overall | -1.5 | -7.3 | -7.3 | 4.7 | 2.8 | 3.7 |

**SECTOR RETURNS (%)**

| | | | | | | |
|---|---|---|---|---|---|---|
| FTSE Canada Federal Bond | -0.8 | -3.7 | -3.7 | -1.8 | 1.7 | 2.9 |
| FTSE Canada Provincial Bond | -2.4 | -7.2 | -7.2 | 0.6 | 3.2 | 4.8 |
| FTSE Canada All Corporate Bond | -1.0 | -3.5 | -3.5 | 7.6 | 3.9 | 4.6 |

### GLOBAL FIXED INCOME

| INDEX RETURNS (%) | 1 Mo | 3 Mos | YTD | 1 Yr | 5 Yrs | 10 Yrs |
|---|---|---|---|---|---|---|
| FTSE World Government Bond | -2.8 | -6.9 | -6.9 | -10.1 | 1.5 | 4.3 |

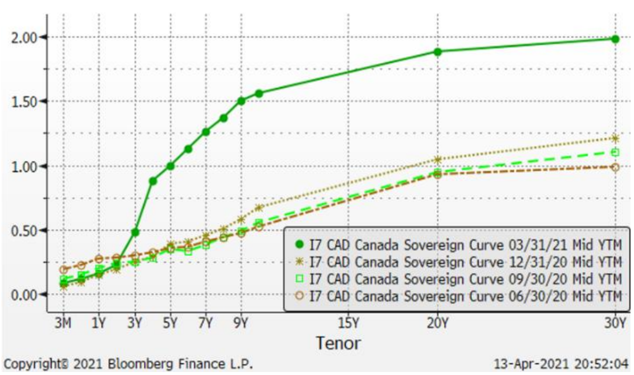
### COMMODITY

| | 1 Mo | 3 Mos | YTD | 1 Yr | 5 Yrs | 10 Yrs |
|---|---|---|---|---|---|---|
| Bloomberg WTI Cushing Crude Oil Spot Price | -4.5 | 20.3 | 20.3 | 155.1 | 8.4 | -3.3 |
| Bloomberg European Dated Brent BFOE Price | -3.8 | 20.3 | 20.3 | 156.7 | 9.3 | -3.7 |
| Edmonton Crude Oil Syncrude Sweet Blend FOB Spot | -1.7 | 37.8 | 37.8 | 471.9 | 7.6 | -3.9 |
| S&P GSCI Nat Gas Index Spot | -6.6 | 1.3 | 1.3 | 40.4 | 5.2 | -2.6 |
| S&P GSCI Copper Index Spot | -3.9 | 11.7 | 11.7 | 56.9 | 11.9 | 1.9 |
| S&P GSCI Gold Index Spot | -1.5 | -10.7 | -10.7 | -5.1 | 6.1 | 4.4 |

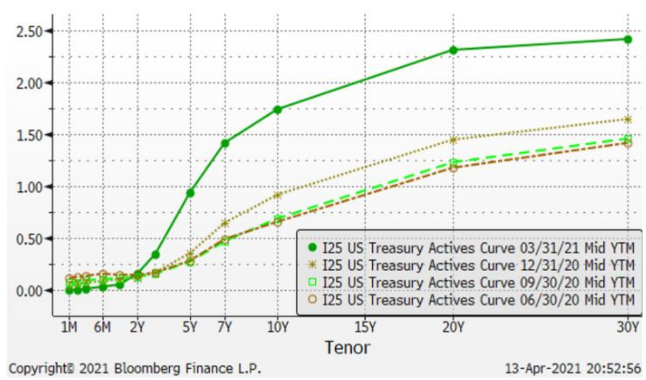
### CURRENCY

| | 1 Mo | 3 Mos | YTD | 1 Yr | 5 Yrs | 10 Yrs |
|---|---|---|---|---|---|---|
| CAD/USD$ (% chg) | -0.7 | -1.3 | -1.3 | -11.7 | -0.6 | 2.6 |
| CAD/Yen (% chg) | -4.3 | -7.8 | -7.8 | -13.7 | -0.2 | -0.3 |
| CAD/GBP (% chg) | -2.0 | -0.4 | -0.4 | -1.7 | -1.4 | 1.1 |
| CAD/Euro (% chg) | -3.9 | -5.2 | -5.2 | -5.4 | 0.0 | 0.7 |

### GOVERNMENT OF CANADA YIELD CURVE




### U.S. TREASURY YIELD CURVE




Sources: Bloomberg Finance L.P., FTSE Bond Analytics, TD Securities, Thomson

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