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GLOBAL ECONOMIC GROWTH TO REMAIN UNEVEN

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The Economic Expansion: To Be Continued….

Raymond James Ltd. 5300-40 King St W. | Toronto ON Canada M5H 3Y2. | 2200-925 West Georgia Street | Vancouver BC Canada V6C

Quarterly Outlook: The Economic Expansion: To Be Continued….

Nadeem Kassam, MBA, CFA
Head of Investment Strategy

Tavis C. McCourt, CFA
Institutional Equity Strategist

Scott J. Brown, Ph.D.
Chief Economist

Ellis Phifer, CFA, CMT
Managing Director
Fixed Income Capital Markets

Ed Mills
Washington Policy Analyst

Eve Zhou
Multi-Asset Analyst

Ajay Virk, CFA, CMT
Head Trader, Currencies

In this publication, we discuss our outlook for the global economy and outline our tactical asset allocation recommendations for the next 9-12 months. 2022 has started off with a bang, literally with the Russian invasion of Ukraine. This follows a record year in 2021, with global real GDP growth soaring +5.9% or ~2x the long-term trend. Moreover, as we look ahead over the next 9-12 months, we see more uncertainty/risk to the expansion than we did at the beginning of the year, including but not limited to: **1)** The Russian invasion of Ukraine and the rise in geopolitical tensions (US/NATO vs. Russia/China) not to mention global sanctions on Russia - a major commodity producer; **2)** divergence of central bank policy; **3)** stubbornly high inflation; **4)** new COVID-19 variants and lockdowns (e.g., China); and, **5)** a significant slowdown in China. In this environment, we suggest investors diversify across equity asset classes, styles and sectors. Within fixed income markets, we suggest investors consider US MBS, and stick to lower duration securities, with a preference for Canadian/US corporates over sovereign debt given the recent rise in corporate spreads.

Key Takeaways:

- **It's complicated…a more uneven recovery than we had originally expected.** While global real GDP growth has been revised lower, the brunt of the revision has largely been concentrated across several Asian, Emerging and European economies, while commodity oriented regions and North American developed economies have experienced quite the opposite. Amid all the uncertainty, we believe capital will flow to the "cleanest dirty shirts in the laundry" over the near-term, which from a Canadian investor's perspective means Canada and the US markets. Both economies are set to grow by +3.8% and +3.1%, respectively, in 2022, above the 20-year trend of ~1.8%.

- **Everything is still uncertain.** The lasting economic impacts from the Russia/Ukraine conflict and China lockdowns are still very uncertain. The range of expectations includes everything from a global recession to a high growth/inflationary outlook supported by substantial fiscal spending/QE globally. Everything should be clearer in a couple of months, but now in early April, diversifying across asset classes, styles and sectors makes a lot of sense until the outcome of these exogenous events is more clear.

- **Inversion = recession is imminent?** The US/Canadian sovereign yield curves (measured as the 10-year yield minus the 2-year yield) have inverted, causing a buzz in the media over the possibility of a recession. While every recession in the US since the 1980s has been preceded by an inverted yield curve, not every inverted yield curve led to a recession, as there are many more temporary inversions than there are recessions. Also, the 10-year yield minus the 3-month yield represents a stronger indicator of a recession, and it remains positively sloped with a spread of +194bps.

- **Asset allocation recommendations.** We continue to recommend an overweight allocation to equities, which, relative to cash and fixed income, continues to offer a more compelling risk/reward profile for medium-/long-term investors. Also, given relative valuations and the current earnings outlook, we suggest an overweight allocation to the cyclically sensitive S&P/TSX versus the tech-heavy S&P 500 index.

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Tactical (9-12 month) Asset Allocation Recommendations

	- Neutral +	Comments
Equity		We remain overweight equities as we continue to see good relative risk/reward characteristics, despite the level of uncertainty that has only gained momentum in 2022. However, we note that all equities are not created equally and suggest investors remain selective.
US Large Cap (S&P 500/ Russell 1000)		The US Large Cap space represents some of the highest quality businesses in the world, with strong competitive attributes, high levels of profitability, and strong enduring growth profiles. However, as valuations have come in from peak levels in 2021, driven by the move higher in yields, we expect US Large Cap equities to maintain their premium valuations, albeit at a much lower level than in 2021, for longer as global investors turn to this segment of the global equity market as a safe haven amid all the global economic/geopolitical uncertainty.
US Small-Mid Cap (Russell 2000/Russell Mid Cap)		We see good growth and relative valuations across the US Small-Mid Cap space. In particular, we are seeing compelling opportunities within US Small-Mid Cap value. However, the level of market uncertainty has picked up in 2022, with investor capital flows shifting towards more risk-off areas of the market or those better positioned amid the current backdrop. This trend began since the start of the Russian-Ukraine war. We expect this trend to continue until investors get some clarity on the path forward or the level of uncertainty moderates from current levels.
Canadian Large Cap (S&P/TSX 60)		We see good value across the broad Canadian market relative to our neighbours to the south. In particular, we have a favourable view on quality cyclical equities and select defensive equities.
Canadian Small-Mid Cap (S&P/TSX Composite)		We see good value across the broad Canadian market relative to our neighbours to the south. In particular, we have a favourable view on quality cyclical equities and select defensive equities.
Developed (MSCI EAFE)		It remains a mixed bag for most developed markets outside of North America. Some regional equity markets are facing tremendous pressure/capital outflows from the fallout of the Russian-Ukraine war/Russian sanctions and/or the slowdown/COVID-19 lock-downs in China. However, other regionial markets across the Middle East and Asia Pacific region are peforming better given the commodity-centric tilt of their economies/equity markets (e.g., Australia).
Emerging (MSCI Emerging Market)		It remains a mixed bag for Emerging equity markets, with select economies with a strong commodity-tilt performing better than regions directly/indirectly exposed to the Russian-Ukraine war, the slowdown in China, or which have US$ denominated debt. These and other headwinds in 2022 have made Emerging markets a less attractive region to deploy capital in today despite compelling relative valuations. Uncertainties remain high and are likely to remain elevated over the short-term with global capital flows continuing to move to more defensive markets or those better positioned amid the current uncertain geopolitical/economic environment.
Fixed Income		With valuations and risk/reward attributes not particularly compelling today given soaring inflation and central banks eager to prevent a runaway inflation scenario through aggressive rate hikes/balance sheet roll-off, we remain underweight Fixed Income as an asset class.
US Government (Bloomberg US Treasury Total Return)		We suggest an underweight allocation to US government bonds due to the weaker risk/return characteristics across the curve. However, if you must, we see the most attractive opportunities for US government bonds with a duration between 3-7 years.
US Corporate (Bloomberg Barclays U.S. Corporate Bond)		US Investment grade corporate bonds continue to offer better risk/reward characteristics especially as credit spreads have widened out more recently. We suggest investors maintain exposure to bonds with a duration profile between 3-7 years.
Canadian Government (FTSE Canada All Government Bond)		We suggest an underweight allocation to Canadian government bonds due to the weaker risk/return characteristics across the curve. However, if you must, we see the most attractive opportunities for Canadian government bonds with a duration up to 2-years.
Canadian Corporate (FTSE Canada All Corporate Bond)		Canadian Investment grade corporate bonds continue to offer better risk/reward characteristics especially as credit spreads have widened out more recently. We suggest investors maintain exposure to bonds with a duration up to 2-years.
Currency (USD/CAD)		We anticipate USD/CAD to trade on the firmer side in the short-term within a target range of 1.2300-1.2700. 1.2450 is a key retracement level from the pairs October-December 2021 rally that we will be watching closely on the downside after failed attempts to make a convincing break; this level also marks the YTD low for the pair. RSI levels also show the pair nearing oversold territory, so an additional attempt at 1.2450 may entice strong buying interest. In the event this level gives way, the 1.24 handle will quickly come into focus followed next by a hazy technical support zone in the 1.22-1.23 range. As for the topside, we are looking at the 1.27 handle as this also coincides with the near convergence of the pair's 50- and 100-day moving averages.
Cash		Amid the current elevated inflationary backdrop, we suggest an underweight to cash as an asset class as we see more attractive risk/reward opportunities in other asset classes, including equities and corporate investment grade bonds which offer higher potential real returns.

Market Commentary

Global Economic Outlook: Still in Expansion Mode, but Risks Have Emerged on the Horizon...

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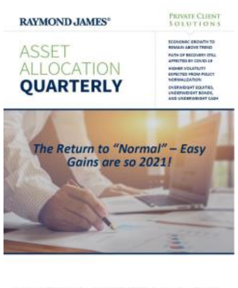


2022 has started off with a bang, literally, which has caught investor's off-guard. This follows a record year in 2021, with global real GDP growth soaring +5.9% or ~2x the long-term trend. However, as we highlighted in our last quarterly update, **The Return to "Normal"– Easy Gains are so 2021!,** investors should position for a lot more volatility in 2022, which at the time we felt would be driven by policy normalization/tightening efforts by central banks, rather than a full out war in Europe. However, the Russian-Ukraine war has complicated matters and raised the uncertainty for markets, including our outlook given the fluid/unpredictable nature of the situation.

Moreover, as we look ahead over the next 9-12 months, we see more uncertainty/risks to the expansion than we did at the beginning of the year. While 2021 uncertainty was largely the result of new COVID-19 variants spreading across the world, along with expanding lockdowns, the volatility in 2022 has since been the result of several variables including but not limited to: **1)** The Russian invasion of Ukraine and the rise in geopolitical tensions (US/NATO vs. Russia/China) not to mention global sanctions on Russia - a major commodity producer; **2)** divergence of central bank policy; **3)** stubbornly high inflation; **4)** new COVID-19 variants and lockdowns (e.g., China); and, **5)** a significant slowdown in China.

These uncertainties have already resulted in downward revisions to 2022 global real GDP forecasts, which we had already anticipated for 2022; however, the downward revisions have been more aggressive for several Asian, Emerging and European economies, while commodity oriented regions and North American developed economies have experienced quite the opposite. Similar to 2021, we expect the recovery, which is only in year three of the business cycle (since 1960, historical expansion for Canada have lasted ~10.9 years), will remain uneven in 2022 and likely also in 2023. The latest forecast for global GDP growth puts real GDP growth at +3.0% year-over year (YoY) for 2022. This compares to the 20-year average of (2000-2020) of ~3.2% YoY.

Real GDP Growth Slowing Towards Trend in 2022/23 [LHS]; Real GDP Growth Revised Lower QoQ [RHS]

30-Mar-22	Average	Real GDP Growth Forecasts		
	2000-2020	2021	2022	2023
World	**3.2%**	**5.9%**	**3.0%**	**3.6%**
Advanced Economies	**1.4%**	**5.2%**	**3.3%**	**2.1%**
US	***1.8%***	***5.7%***	***3.1%***	***2.0%***
Canada	***1.8%***	***4.6%***	***3.8%***	***2.5%***
Euro	1.0%	5.3%	2.8%	2.0%
UK	1.2%	7.5%	4.0%	2.0%
Japan	0.6%	1.7%	2.8%	2.2%
Australia	2.6%	4.7%	5.0%	2.5%
Emerging Economies	**4.7%**	**6.4%**	**2.8%**	**4.6%**
Emerging Asia	6.1%	6.9%	4.5%	5.7%
China	7.3%	8.2%	2.5%	5.0%
India	6.4%	8.1%	9.2%	7.5%
Russia	3.6%	4.7%	-12.0%	-1.5%
Brazil	2.1%	4.6%	0.8%	1.8%
Mexico	1.6%	4.8%	2.0%	2.5%

Change (p.p.)	Real GDP Growth Forecasts		
	2021	2022	2023
World	**-0.1**	**-1.0**	**0.1**
Advanced Economies	**0.1**	**-0.3**	**0.0**
US	***-0.1***	***0.0***	***0.0***
Canada	***0.1***	***0.3***	***0.4***
Euro	0.2	-1.2	0.5
UK	0.7	-0.8	-1.5
Japan	-0.2	-0.7	0.3
Australia	0.3	0.0	-1.4
Emerging Economies	**-0.1**	**-1.9**	**0.4**
Emerging Asia	-0.3	-1.2	0.9
China	0.2	-2.5	0.0
India	0.1	-1.3	0.0
Russia	0.4	-14.8	-3.3
Brazil	-0.2	-0.5	0.0
Mexico	-1.2	-0.8	1.0

Source: Capital Economics; Raymond James Ltd.; Raymond James Financial; Data as of March 30, 2022

….the "cleanest dirty shirts in the laundry" from a global economic perspective remain the Canadian and US economies….

However, that said, the "cleanest dirty shirts in the laundry" from a global economic perspective remain the Canadian and US economies, which are both set to grow by +3.8% and +3.1%, respectively in 2022 (revised +0.3 for Canada and unchanged for the US since Q4/2021). While there are obvious downside risks to these estimates for Canada and the US, we note both economies are trending almost 2x above their 20-year averages in real terms and are much better positioned versus many of their global peers with a sufficient buffer built in above their historical run rate to help cushion against potential headwinds on the horizon.

So it's all Transitory Until it's Not - Inflation to Remain Elevated in 2022/'23!

We expect factors pushing up inflation to remain elevated in 2022 and also above trend in 2023. Recent geopolitical events including the Russian invasion of Ukraine and the subsequent imposition of sanctions on Russia (a major commodity producer which represents 12.1% of global oil production as of December 2020), in addition to ongoing supply chain disruptions, most notably in China (e.g., lockdowns in Shenzhen/Shanghai due to the government's zero COVID-19 policy), have only worsened the inflationary pressures already present. The inflationary trend has now also broadened out beyond volatile components such as food and energy to include services and now wages. We expect these factors will keep inflationary pressures above trend longer than originally expected. While we anticipate some relief from base effect impacts as we move further into the year, the uncertainty associated with the war in Europe, and if or when we will see peace and sanction reliefs remains a wild card for commodity markets and other volatile components of CPI. This coupled with ongoing labour shortages globally and still strong consumer/corporate demand, suggests to us that inflation will remain stickier than we had originally anticipated or hoped for.

Inflation Running Hot in 2022 & Likely into 2023 [LHS]; Upward Revision in Inflation Expectation QoQ [RHS]

30-Mar-22	Average 2000-2020	Inflation Forecasts 2021	2022	2023
World	**3.6%**	**3.5%**	**4.6%**	**3.0%**
Advanced Economies	**1.7%**	**3.2%**	**5.4%**	**2.4%**
US	2.1%	4.7%	5.8%	2.2%
Canada	1.9%	3.4%	5.5%	2.4%
Euro	1.6%	2.6%	6.0%	3.0%
UK	2.0%	2.6%	7.1%	3.5%
Japan	0.1%	-0.2%	1.7%	0.9%
Australia	2.5%	2.8%	4.8%	3.2%
Emerging Economies	**5.0%**	**3.9%**	**5.5%**	**3.4%**
China	2.6%	0.9%	1.5%	1.6%
India	5.9%	5.1%	5.7%	3.3%
Russia	10.5%	6.7%	7.0%	3.7%
Brazil	6.2%	8.3%	8.0%	3.5%

Change (p.p.)	Inflation Forecasts 2021	2022	2023
World	**-0.2**	**1.1**	**0.2**
Advanced Economies	**0.1**	**2.7**	**0.6**
US	0.1	2.4	-0.6
Canada	0.0	2.5	0.4
Euro	0.1	3.7	2.0
UK	0.1	3.3	1.4
Japan	0.1	0.9	0.7
Australia	0.0	2.4	0.9
Emerging Economies	**-0.3**	**1.3**	**0.1**
China	-0.1	0.0	0.0
India	-0.1	0.2	0.0
Russia	0.1	0.5	0.0
Brazil	0.3	1.7	0.2

Source: Capital Economics; Raymond James Ltd.; Raymond James Financial; Data as of March 30, 2022.

While much of the attention regarding inflation has remain centered on the expected response by central bankers globally, including the Federal Reserve (Fed)/Bank of Canada (BoC), the reality is that the surge in inflationary pressures we see today is largely due to the unprecedented COVID-19 fiscal response (governments globally unleashed +US$$20 trillion in fiscal measures since the beginning of the pandemic), rather than monetary stimulus. However, central bankers globally are now tasked with indirectly reducing inflationary pressures by tightening financial conditions through rate hikes and quantitative tightening to reduce demand-side pressures hoping these monetary changes, which operate with a lag effect of 12-18 months on the real economy, don't send the economy into a recession.

.... bull markets rarely die of old age, rather they get slaughtered by the Fed"...

We remind investors that "bull markets rarely die of old age, rather they get slaughtered by the Fed". More importantly, higher overnight rates do little to solve supply chain challenges or labour shortages; these "transitory" factors, in our view, will probably remain with us for longer than most — including Fed Chair Jerome Powell — expected.

Labour Shortages across G7 Countries Remain High [LHS]; Commodity Prices Remain Elevated [RHS]

Geography	2021-04	2021-05	2021-06	2021-07	2021-08	2021-09	2021-10	2021-11	2021-12	2022-01	2022-02
US	3.5	3.9	3.8	3.9	3.7	3.7	4.1	3.8	3.3	2.9	3.2
Canada	2.0	2.1	2.3	2.2	2.9	2.6	3.1	3.0	2.7	3.0	2.9
UK	2.6	3.4	4.0	4.2	4.6	4.8	5.0	5.1	4.7	4.5	-
Japan	0.4	0.3	0.6	0.7	0.8	1.0	1.3	1.6	1.8	1.7	-
Germany	2.6	2.9	3.1	3.5	3.6	3.7	3.9	3.9	4.0	4.0	-
France	1.0	1.5	1.7	2.0	2.1	2.1	2.6	3.0	3.0	3.2	-
Italy	1.8	2.3	2.8	3.0	3.2	3.6	3.9	4.3	4.6	4.4	-
Euro-zone	2.3	2.5	2.7	3.1	3.2	3.5	3.8	4.0	4.1	4.0	-
G7	2.3	2.7	3.0	3.2	3.4	3.5	3.9	4.0	3.9	3.8	-

30-Mar-22	Average 2000-2020	Commodity Forecasts		
		2021	2022	2023
Brent ($ per barrel)	64	78	100	80
Gold ($ per ounce)	992	1,822	1,600	1,550
Copper ($ per ounce)	5,447	9,555	8,500	7,500

1-Apr-22	Average 2013-2020	Base Metals Forecasts		
		2021	2022	2023
Lead ($ per metric ton)	2,037	2,205	2,262	2,101
Zinc ($ per metric ton)	2,345	2,998	3,444	3,216
Nickel ($ per metric ton)	13,078	18,453	23,310	21,433

Source: Capital Economics; FactSet; Raymond James Ltd.; Raymond James Financial; G7 Labour Shortage as of March 15, 2022

Heading into 2022, we expected policy makers globally to continue their hawkish rhetoric. For the most part, they were on track to tighten/reduce the extreme levels of accommodation through rate increases, ending bond buying programs, and unwinding their balance sheets. However, while financial conditions have tightened since early 2021, conditions have more recently begun to loosen following the Russian invasion of Ukraine in February 2022. The uncertainty caused by this war and the subsequent sanctions by the US and NATO allies have only exacerbated the factors present prior to the invasion, leading to **higher** inflationary pressures, **greater** geopolitical tensions, **higher** uncertainty, and **lower** global growth.

Financial Conditions Have Begun to Loosen Since Russian Invasion of Ukraine

Source: Capital Economics; Raymond James Ltd.; Raymond James Financial; Data as of March 30, 2022

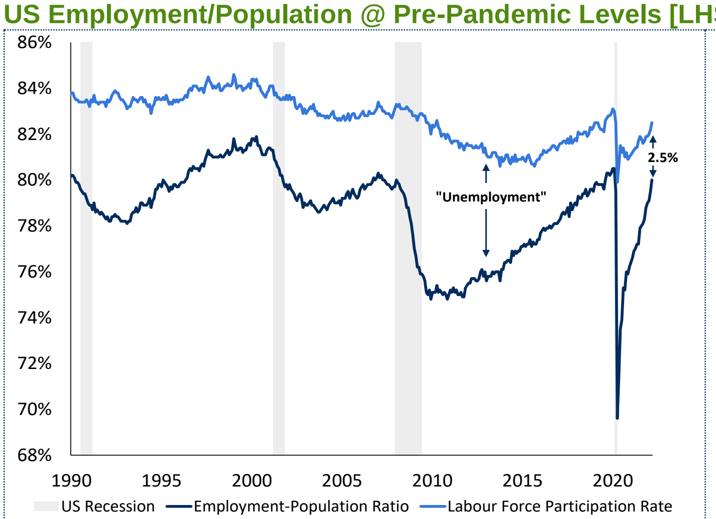
Against this backdrop (i.e., slowing global growth, above-trend inflation, and a divergence in central bank policy moves), we expect significantly more volatility and uncertainty as central bankers and policymakers attempt to balance policy normalization efforts with surging inflationary pressures, a war in Europe, ongoing supply chain challenges, and slowing growth. We suggest investors remain selective and stick with the "cleanest dirty shirts in the laundry", including Canada, US, and select emerging/developed economies (Brazil, Australia, etc.) which remain better insulated amid the current economic backdrop.

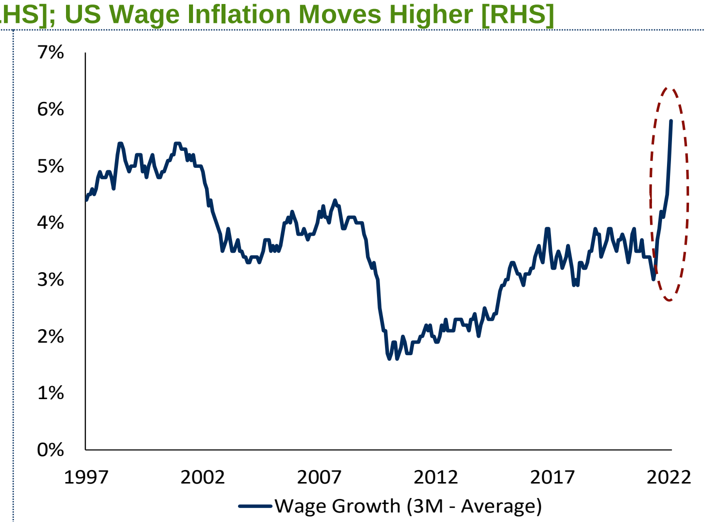
US Economic Outlook–Remains Solid, but Headwinds Remain as the Fed Aims to Engineer a Soft Landing

The U.S. economy has continued to emerge from the pandemic on a solid footing. Job growth has remained strong despite tight labour market conditions. Supported by substantial fiscal and monetary policies, real GDP has neared its pre-pandemic trend. However, inflation has increased, reflecting a growing imbalance between supply and demand. There is little sign of a wage-price spiral, but an inflationary mindset has become more entrenched. The Fed has begun to raise short-term interest rates, and may be more aggressive as it attempts to rein in inflation.

The job market has remained strong. The Omicron variant had only a brief impact on economic activity at the start of the year. Nonfarm payrolls averaged a 562,000 monthly gain in 1Q22. The unemployment rate fell to 3.6% in March, which is where it was in 4Q19 (before the pandemic). Labor force participation has improved, and is now at or near pre-pandemic levels for most major categories except for those aged 55 and over (who are generally more concerned about the virus). With labour markets extremely tight, the pace of job growth should slow down in the months ahead. However, there are about 99 million working-age individuals currently not in the labour force. Higher wages should encourage more people to work and higher inflation may lead some stay-at-home spouses and early retirees to return to the workforce to help make ends meet.

US Employment/Population @ Pre-Pandemic Levels [LHS]; US Wage Inflation Moves Higher [RHS]





Source: Bureau of Labour Statistics; Raymond James Ltd.; Raymond James Financial; Employment/Population: Aged 25-54 Years, data as of March 1, 2022; Wage Inflation, data as of February 1, 2022.

Wage growth has picked up, especially for entry-level positions, but in general, average wages have not kept pace with inflation. <u>In the inflation booms of the 1970s and early 1980s, inflation become firmly rooted in the labour market, leading to a wage-price spiral. Union membership and other gauges of labour power are much more muted now</u>. There is a greater concentration of large firms. As a result, wage bargaining power has shifted more toward business and away from workers. Nevertheless, quit rates remain elevated and firms have had to expand efforts to hire new workers and retain existing employees.

Government transfer payments have fallen, slowing growth in personal income (disposable income fell 1.6% y/y in February after adjusting for inflation). While average wage and salary income has generally failed to keep pace with inflation, aggregate wage and salary growth has remained very strong (+6.2% for private-sector workers adjusted for inflation). This should continue to support consumer-spending growth in the near term. Excess savings from the 2020 and 2021 fiscal stimulus are being depleted, especially at the lower end of the income scale.

The PCE Price Index rose 6.4% over the 12 months ending in February, up 5.4% y/y ex-food and energy — well above the Fed's 2% goal. A year ago, when inflation began to move up, increases were limited to a small number of sectors, reflecting a rebound in prices that were depressed in the spring 2020 lockdowns. Restart inflation pressures were also evident, as they are in every economic recovery. Supply chains take time to repair, but that process was expected to be more prolonged due to the pandemic. And yet, supply chain difficulties have been more severe and longer lasting than anticipated. Moreover, anecdotal evidence suggests further supply chain issues more recently, reflecting the impact of the Omicron variant overseas (lockdowns in China, especially). Russia's invasion of Ukraine has boosted oil prices and damaged supply chains in Europe and Asia. Strong demand has added to supply chain pressures. In hindsight, fiscal policy and monetary policy were much too expansionary last year.

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The Federal Open Market Committee (FOMC) raised the federal funds target range by 25 basis points on March 16 and signaled that further rate increases will be needed to contain inflation. In the revised Summary of Economic Projections, 12 of 16 senior Fed officials expected to increase the federal funds rate target by another 150 basis points by the end of this year, a more aggressive outlook than the financial markets had factored in ahead of the FOMC meeting. In his press conference following the FOMC meeting, Fed Chair Powell admitted that, in hindsight, the Fed should have begun raising short-term interest rates earlier, and policymakers could raise rates by 50 basis points "if appropriate." In Q&A during his semiannual monetary policy testimony to Congress, Powell said that the Fed was prepared to do what the Volcker-led Fed did in the early 1980's (raise rates enough to cause a recession) if inflation fails to fall.

Minutes from the March FOMC meeting suggest that the Fed will announce the beginning of its balance sheet unwind in May. The monthly run-off is expected to ramp up to $95 billion in just three months (much faster and steeper than in the 2017-2019 unwinding), with $60 billion/month in Treasuries and $35 billion in MBS. The balance sheet is nearly $9 trillion currently, up from a little over $4 trillion before the pandemic. This balance sheet unwind would occur alongside rate increases, and may take the place of more aggressive rate hikes.

Near-term (1-5 years) inflation expectations have increased, but longer-term (5-10 years) expectations remain reasonably well anchored. As the Fed has only begun to raise short-term interest rates, the short end of the yield curve is still pretty steep. Of course, the Fed may end up raising rates a lot more, increasing the odds of a recession in 2023, but there's little risk of recession in the near-term. Higher oil prices are often associated with recessions, but that is because the Fed has typically reacted to the inflationary aspects of higher oil. That is unlikely to happen currently, but again, the Fed is prepared to raise rates enough to cause a recession if that is what it takes to get inflation back down.

…. Of course, the Fed may end up raising rates a lot more, increasing the odds of a recession in 2023, but there's little risk of recession in the near-term…

The Fed is optimistic that it can achieve a soft landing. While yield curve inversion fears are overdone, the economy does need to slow to a more sustainable pace. A backdrop of slower economic growth, the situation in Ukraine, monetary policy tightening, and the unwinding of the Fed's balance sheet should present a challenging environment for investors.

Washington Policy–Geopolitical Tensions Will Remain Elevated in 2022

With Russia's war in Ukraine now over a month into hostilities, markets are looking for clarity on what the next stage will be in terms of the conflict and global implications. With the initial impact of sanctions for global markets now clearer, attention in Washington is turning to additional measures that can be taken to bring about a resolution to the crisis. Increasingly, policymakers are focusing their attention on China's support for Russia, which could have an even bigger impact on the global economy and the future of global supply chains/capital markets. For now, we see a widening gap between market expectations that the conflict in Ukraine could be resolved in the near-term relative to the on-the-ground reality and the potential for escalation. With this setup, negative news can drive an outsized market reaction, and uncertainty is likely to persist over the medium term.

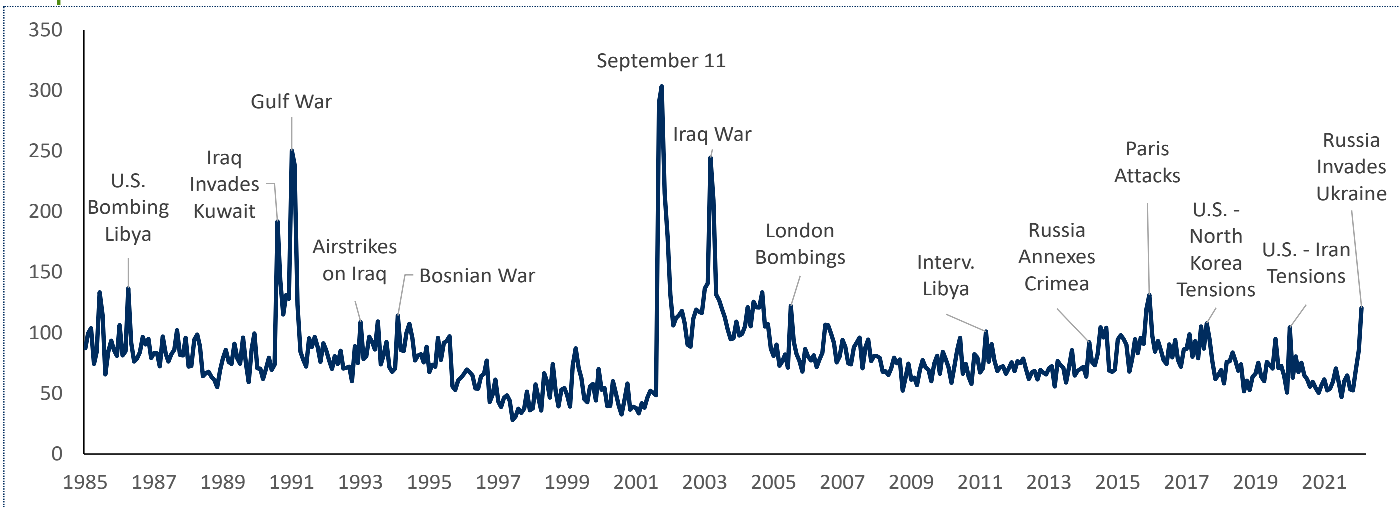
In recent weeks, the increased pace of negotiations and positive characterizations of the negotiations from both Ukrainian and Russian officials closely involved in talks have heightened a sense of optimism that the war may be resolved. However, an expanded view shows us that the political options available for both Russia and Ukraine to seek a mutually beneficial path to de-escalation are limited. Putin has paid a high price in terms of economic damage and military losses — a dynamic which is likely to support maximum demands on Ukraine's government in terms of territorial claims and guarantees of neutrality by Ukraine as it seeks to integrate into Western security/economic institutions. Conversely, Ukraine's successful resistance against Russia's forces, outperforming early expectations, has strengthened the negotiating position of Ukraine's leaders with support from the West. This environment could mean a drawn out conflict with periods of escalation and attempts by Putin to test the unity and resolve of NATO allies. Cyber-threats, military miscalculation, and the use of "weapons of mass destruction" that increase political pressure on NATO nations to respond (given that Ukraine borders four NATO member states) will likely continue to be risk factors for markets.

Finally, the question of sanctions will also add to market uncertainty, even in the event of de-escalation from the current conflict. President Biden's recent speech in Poland, with his assertion that Russia's Putin "cannot remain in power" caused headlines, raising the prospect that global sanctions will see a longer effective period, with key implications for energy and broader commodity markets. Additionally, the amplified spotlight on China's alliance with Russia can be broadly viewed as an accelerant of decoupling and enhanced scrutiny trends seen in the economic relationship between China and Western nations. China is more likely to seek a middle ground to preserve relations with the West while safeguarding what it views as its "legitimate rights and interests" in its relations with Russia. However, this ambiguity is likely to give policymakers seeking a more hawkish stance on China more ammunition aimed at advancing economic restrictions and decoupling.

….Overall, geopolitical risk will be significantly heightened over the course of this year….

Overall, geopolitical risk will be significantly heightened over the course of this year, raising the prospect of expanded economic confrontation and associated economic disruption stemming from Russia's invasion of Ukraine.

Geopolitical Risk Index Soars on Russia's Invasion of Ukraine



Source: FactSet; Raymond James Ltd.; Raymond James Financial; Data as of February 28, 2022

Canadian Economic Outlook – Remains on a Solid Footing, but the Path Ahead is Likely to Remain Choppy

The Canadian economic backdrop remains on a solid footing with GDP growth recovering strongly, albeit with huge variations by sector. In February, hours worked in the professional services sector were +15% higher than in February 2020; whereas those in the accommodation & food services sector were still 19% lower.

While real disposable income is expected to fall this year, the high household savings rate – 6.4% in the fourth quarter – provides plenty of dry powder for real consumption to recover further in 2022 and beyond. This is helpful to explain the resilience in consumer confidence, which has fallen only slightly in recent months and remains consistent with real consumption growth at close to 4% YoY.

The 7.8% annualized rise in fourth-quarter investment (including Residential, Non-Residential, Machinery & Equipment, and Intellectual Property) was broadly based. The economy also benefitted from stronger inventory building in the quarter, with retail & wholesale inventories rising following the contraction in Q3/2021. The war in Ukraine has contributed to sharp increases in commodity prices and has raised the prospects for investment in the energy and materials sectors this year and beyond.

There are clearly mixed signals for residential investment this quarter. Housing starts have fallen since the end of last year, but that should be at least partly offset by the renewed strength of home sales in February. The recent surge in interest rate expectations is a key risk to the housing sector which, since the pandemic lows, has been a sizable contributor to GDP growth.

The rise in commodity prices has pushed the terms of trade to its most favourable on record, but export volumes will continue to be hindered by capacity constraints in the energy sector. Keeping with the pre-pandemic trend, we assume services imports will rise by more than exports as travel demand recovers in the months ahead. The impact of stronger growth in services import volumes should be more than offset by higher export prices for goods, causing a large surplus in the current account for the first time since 2008.

The labour market boom resumed in February as employment surged by 337,000 and hours worked jumped by 3.6% m/m, leaving both almost 2% higher than before the pandemic. While the easing of the coronavirus restrictions supported the gains in February, there was also a record monthly increase of 47,000 in professional services employment, bringing it to more than 200,000 above its pre-pandemic level. The jump in employment caused the unemployment rate to tumble to 5.5%, below the pre-pandemic rate of 5.7% and only marginally above the 50-year low of 5.4% from May 2021. The long-term unemployment rate also fell toward the pre-pandemic norm. While the unemployment rate remains highest in the natural resources sector, it is likely to fall sharply following the surge in commodity prices. Even at the current unemployment rate, it seems likely that wage growth will accelerate from 3.1% y/y in February toward the pre-pandemic average of between 4% and 5%.

The latest CPI reading rose to a 31-year high of 5.7% in February. Compared to the broad-based rise in prices in January, the increase in February was largely due to developments in transportation, food & shelter prices. While the breadth of the price gains was narrower than in January, an average of the three core inflation measures still rose to 3.5% and businesses' selling price expectations point to further increases ahead.

The policy rate implied by overnight index swaps has shifted up in the past two weeks, taking the end-2023 value to 2.5%, versus current overnight rates at 50bps. That seems to reflect several factors, including an easing of concerns about a broader escalation of the war in Ukraine, a further hawkish shift by policymakers in several economies, and the potential benefits to the economy from elevated commodity prices. Higher commodity prices have also raised the upside risks to inflation. The sharp move in the 10-year yield to 2.51% has been largely a reflection of the higher inflationary prints, which have greater risk to the upside.

Equity Allocation (Overweight) – Remain Selective

…..The "easy gains are in, remain selective…..equities still the best game in town….

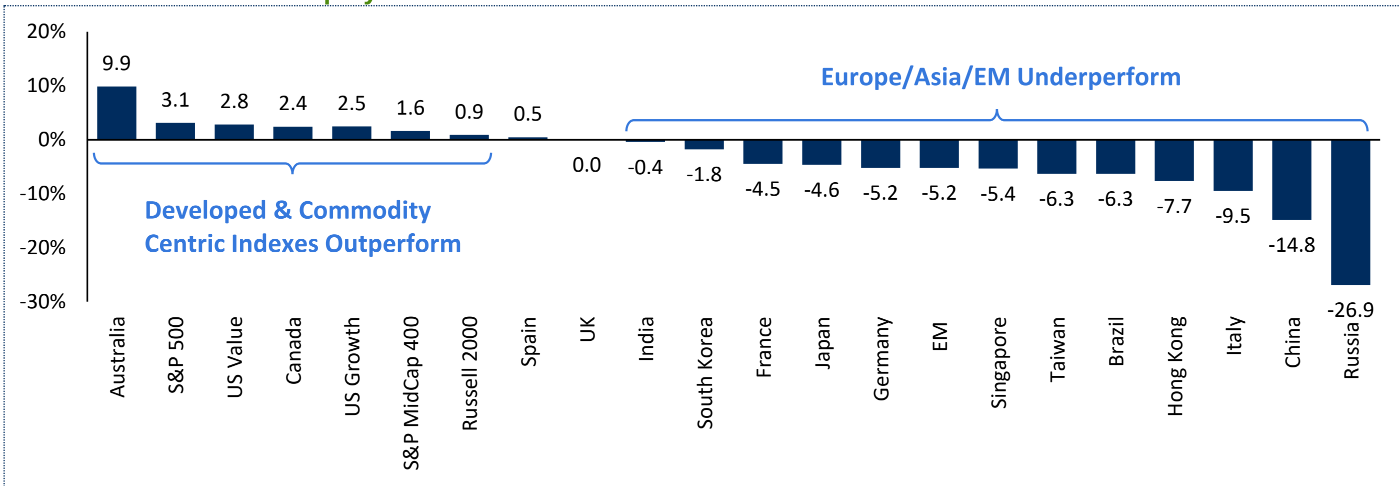
Equity markets hate uncertainty, and 2022 has presented a full cocktail of just that. From soaring inflation and new COVID-19 lockdowns in China, which have only exasperated the slowdown in world's second largest economy, to a full-out war in Europe, 2022 will be a year for the history books.

But as we highlighted multiple times over the past several quarters, including in our last quarterly asset allocation update, the easy gains are in. Investors must remain selective in their equity choices and be prepared for more volatility. Amid soaring inflation, diverging monetary/fiscal policies, geopolitical and economic uncertainties from the Russia/ Ukraine war, and a significant slowdown in China, we believe equities still remain the best asset class relative to bonds and cash, but expect defensive markets/stocks and commodity oriented markets will be better positioned to weather the unpredictable outlook over the next several months or until the dust settles. (Think US large/mid-cap, US growth/value, defensive sectors/stocks, and commodity sensitive markets across Canada, Australia, Brazil, etc.)

US Equities (Overweight)

In the first quarter of this year, the two significant events globally (Russia/Ukraine war and China COVID lockdowns) have had varying impacts on equity markets. Most clearly, the US is the "cleanest dirty shirt in the laundry" once again, with US equity indexes outperforming the vast majority of global indexes since the Russia/Ukraine war began, as US equities continue to serve as a global "safe haven" for investors.

Performance of Global Equity Markets/Indexes since the Russia/Ukraine Crisis



Source: FactSet; Raymond James Ltd.; Raymond James Financial; Data as of March 30, 2021

Both these issues will likely have a negative impact on the earnings outlook when companies report Q1 earnings in April, while we expect companies with US exposure to fare better than those that are more globally exposed, given the far stronger economic trends in the US vs. Europe or Asia currently. Interest rates have moved up meaningfully in Q122, while the yield curve has flattened meaningfully, suggesting that financial market participants are projecting a slowing of growth expectations as a result of the added inflation fears.

In summary, there is a tremendous amount of uncertainty around the forward earnings outlook and the overall economic outlook, although currently both those variables are quite strong in the US. As of today, S&P 500 EPS are still trending up, but we suspect this may come to an end during Q1 earnings season, most notably due to companies with global exposure. There is also a very uncertain trend in the yield curve after a big move up in 2Y and 10Y Treasury yields in Q1. Will higher inflation/China lockdowns cause long-term yields to come down on demand destruction fears? Even as inflation is very high in the near term? It's unclear, and there are only a few things we know for sure at this point.

- The US economy is far better positioned than Europe/Asia/EM. This is likely to drive further capital flows to the US as a "safe haven". It doesn't mean absolute returns will be great, but relatively, the US looks like a better bet than the rest of the world.
- Companies with US exposure will likely fare better than companies with global exposure in the near term in term of EPS trend. This preference cuts across sectors and styles, as there are companies in every sector with more US exposure vs. Global.
- Services companies will likely fare better than goods companies from an EPS perspective, partly because goods companies generally have more global supply chains (risk), and partially because, as COVID trends come down, consumers in the US are returning to more normal behavior, which means more services spending and less goods spending, at the margin.
- Everything is still uncertain. The lasting economic impacts from Russia/Ukraine and China lockdowns are uncertain. Range of expectations includes everything from a global recession to a high growth/inflationary outlook supported by substantial fiscal spending/QE globally. Everything should be more clear in a couple of months, but in early April, it makes a lot of sense now to diversify across asset classes, styles and sectors until the outcome of these exogenous events are clearer.

Canadian Equities (Overweight)

As we had expected heading into 2022, the S&P/TSX was better positioned than the tech-heavy S&P 500 to outperform in 2022. Our view was primarily based on the premise that dislocations both from a relative and absolute valuation perspective (forward P/Es) were quite material and likely to converge towards historical averages over time, especially given our higher rate/inflation outlook which we expected would result in a more meaningful multiple compression for the S&P 500 index vs. the S&P/TSX index. Moreover, given our positive bias that the recovery would continue in 2022, albeit at a much slower pace than in 2021, the cyclical/commodity focus of the S&P/TSX index positioned it well to outperform in this environment. Recent developments, however, have only strengthened our positive bias on the S&P/TSX following the commodity supply shock that has occurred due to the Russian invasion of Ukraine and the sanctions that followed.

We suggest investors follow a more balanced approach to their equity selections, and diversify across asset classes, styles and sectors. That should help to moderate the volatility from the uncertainties that still remain. Of note, we see attractive valuations across most sectors, except Industrials, Info Tech, and Utilities. We suggest investors remain selective and seek out opportunities that line up best from a risk/reward and time horizon perspective.

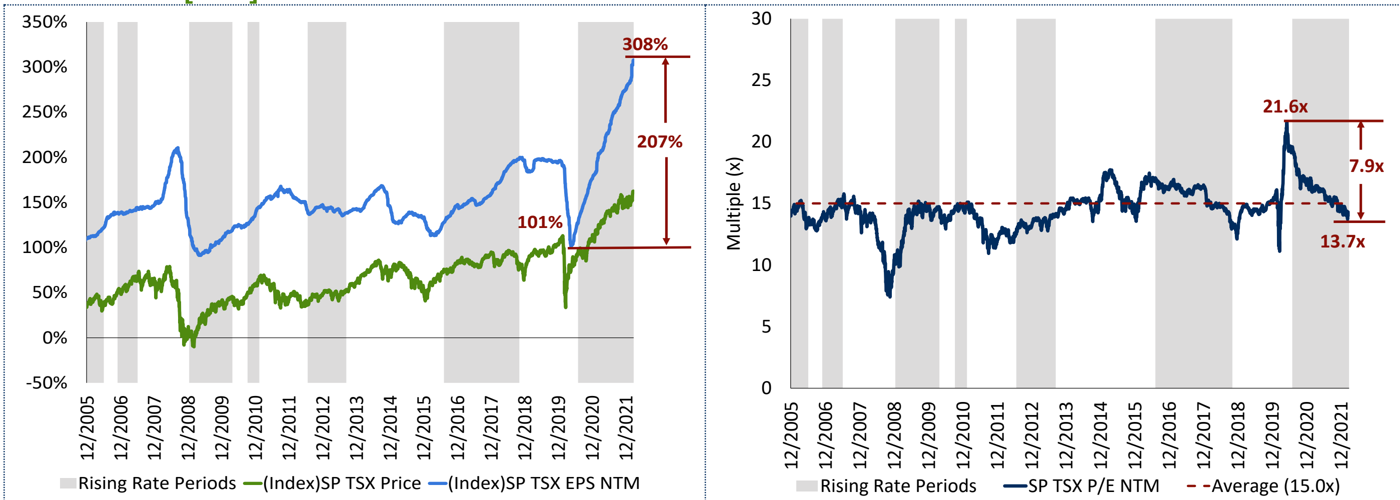
S&P/TSX Index/Sector/Industry YTD Performance and Median P/E Next Twelve Month Valuations (NTM)

	Current PE NTM	Historical PE (Since 2002)	Premium (+) / Discount (-)	YTD Return
Canada S&P/TSX Composite	**14.1**	**14.5**	**-0.4**	**3.8%**
Communication Services	19.9	15.7	4.2	8.8%
Consumer Discretionary	13.6	14.3	-0.8	-7.7%
Consumer Staples	16.9	15.7	1.2	5.4%
Energy	10.1	15.4	-5.2	28.7%
Financials	11.3	11.5	-0.2	2.2%
Health Care	16.2	16.6	-0.3	-8.5%
Industrials	27.4	15.5	11.9	3.9%
Capital Goods	28.9	16.6	12.3	-2.2%
Commercial & Professional Services	34.5	16.3	18.3	-5.1%
Transportation	24.9	14.8	10.1	10.2%
Information Technology	41.1	21.0	20.1	-35.5%
Software & Services	42.6	17.6	25.0	-35.6%
Technology Hardware & Equipment	7.4	15.9	-8.5	5.5%
Materials	14.0	17.3	-3.3	20.1%
Real Estate	18.4	14.6	3.8	-4.7%
Utilities	25.4	17.9	7.6	5.0%

Source: FactSet; Raymond James Ltd.; Raymond James Financial. Data as of March 31, 2022.

Inflation is running hot and yields have risen in 2022, forcing valuation multiples to contract, with sectors such as Information Technology contracting materially since peaking in 2021. And while we continue to see ample evidence to support the case for higher yields as the BoC tightens/ normalizes policy, we believe the majority of the risks to multiples have largely played out.

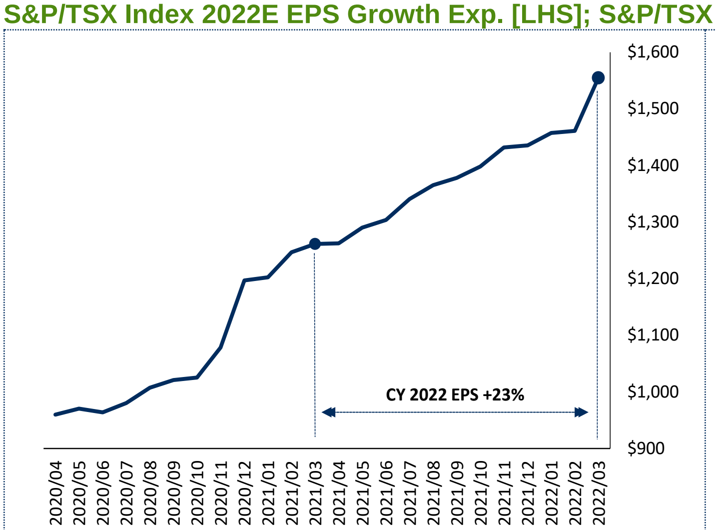
S&P/TSX Index Price & EPS NTM vs. Historical Rising Rate Periods [LHS]; S&P/TSX Index P/E Multiple Contracts as Rates Rise [RHS]



Source: FactSet, data as of March 31, 2021; SP TSX and SP TSX EPS NTM are indexed to 0 on December 31, 1999. The average of SP TSX P/E NTM is 15x since December 31, 1999.

2022 consensus earnings expectations have continued to trend higher over the past year with earnings expectations for CY2022 up 23% from last year, with the energy and materials sectors seeing the largest positive revision to earnings. Current 2022E EPS of $1554.45, reflects an increase of ~16% YoY, which remains well ahead of the 10-year historical trend of 8.1%. While there are risks to earnings given the current economic backdrop, we remain constructive on the outlook for the S&P/TSX, given: **1)** the above trend earnings outlook; **2)** the cyclical composition of the index; and, **3)** the discount valuation relative to history.

S&P/TSX Index 2022E EPS Growth Exp. [LHS]; S&P/TSX Sector 2022E EPS Growth Exp. [RHS]



Sector Name	% Index Weight	EPS (03/31/2021)	EPS (03/31/2022)	Chng in $	Chng in %
Financials	31.8	297.5	331.2	33.7	11.3
Energy	16.4	130.0	274.6	144.6	111.2
Materials	13.1	203.1	280.7	77.6	38.2
Industrials	11.6	180.1	167.0	-13.1	-7.3
Information Technology	6.9	16.8	15.8	-1.0	-5.9
Communication Services	5.1	90.1	88.8	-1.3	-1.4
Utilities	4.7	111.7	115.1	3.4	3.0
Consumer Staples	3.8	360.4	389.7	29.3	8.1
Consumer Discretionary	3.2	202.5	185.2	-17.3	-8.5
Real Estate	2.8	225.9	213.3	-12.6	-5.6
Health Care	0.7	17.3	12.5	-4.8	-27.5

Source: FactSet; Raymond James Ltd.; Raymond James Financial. Data as of March 31, 2022.

Fixed Income (Underweight); Expect Yields to Move Higher

….. While every recession in the US since the 1980s has been preceded by an inverted yield curve, not every inverted yield curve led to a recession ….

With inflation already running at multi-decade highs in the US and Canada, the Fed and BoC raised rates in March by 25bps, and both are widely expected to further increase rates by 50bps at their next regularly scheduled meetings (BoC on 4/13; Fed on 5/4). The yield curves for both Canadian and US sovereign issues have flattened significantly to prepare for aggressive central bank actions. The US yield curve (measured as the 10-year yield minus the 2-year yield) has inverted, causing a buzz in the media about the possibility of a US recession. While every recession in the US since the 1980s has been preceded by an inverted yield curve, not every inverted yield curve led to a recession, as there are many more temporary inversions than there are recessions. Also, every recession (including the Covid-19 pandemic-led recession) began after the Fed stopped raising rates and after the yield curve began to steepen again. Each yield curve inversion that led to a recession remained inverted for at least six months. While we fully expect a US-led recession after an aggressive Fed tightening, the likelihood is that it will come sometime in 2023, rather than 2022. The implication, of course, is that a central bank tightening cycle will eventually slow the economy and slow inflation. The problem for global central banks is that they can only have an indirect influence on supply chain issues; they must rely on their ability to slow demand with higher short-term interest rates.

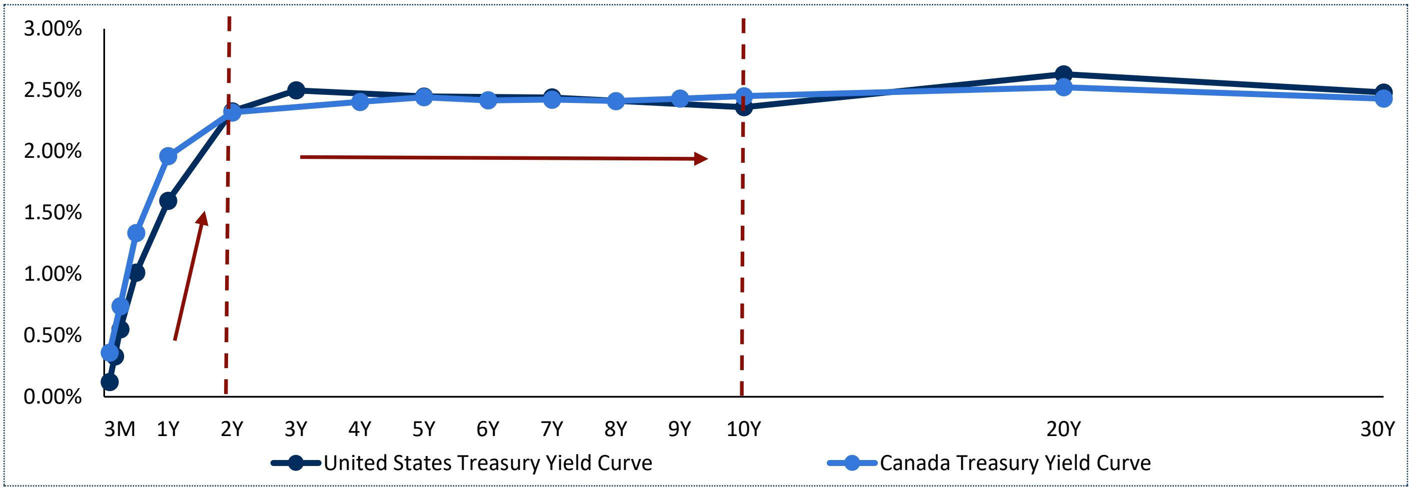
Further exacerbating the inflation problem is the uncertainty surrounding the Russian invasion of Ukraine. With Russia, an OPEC+ member that Europe has become reliant on for natural gas resources and Russia and Ukraine accounting for over a quarter of global wheat supplies, inflation expectations increased dramatically when the war began. US and Canadian interest rates initially fell at the beginning of the invasion in a flight to safety and have since risen to multi-year highs on increased war-led inflation pressures.

So far, the bond markets expect inflation to begin to decline over the next two years and beyond. In the US, the latest headline CPI was 7.9%, while the two-year expected inflation rate priced into 2-year Treasury Inflation Protected Securities (TIPS) is around 4.70%, meaning that over the next two years, inflation is expected to be less than the current level. In the US and Canada, the expected inflation rates are higher in the near term and trail off to 2.60% and 1.83% for the next 30 years, respectively. The most important concept central banks are concerned with is that inflation expectations remain "anchored." If inflation expectations become unhinged, global central banks will have a very difficult time keeping global markets stable and will be in a position to revisit the Paul Volcker inflation-fighting policies of the 1980s. We do not expect this type of drastic monetary policy to become necessary.

In these very uncertain times, with rising inflation and geopolitical risks, the US and Canada will continue to be destinations of safety for market participants, allowing for out-performance over other global interest rate products. Both the US and Canada's significant ability to provide resources (e.g. energy and food) should prove to be beneficial to their respective economies.

With the Fed and the Bank of Canada in tightening mode, we like floaters for their ability to follow rates higher. Additionally, we continue to like mortgage-backed securities as they provide cash flow that can be reinvested at increasing rates. Comparing Canadian and US government interest rates, we prefer to be positioned in short-term (up to 2-years) Canadian government and corporate notes, while in the US we have a preference for 3-7 year maturities for US government and corporate notes.

US and Canada Yield Curve



Source: FactSet; Raymond James Ltd.; Raymond James Financial. Data as of March 30, 2021

FX – An Unbridled Quarter Rocked by a Commodity Rally

Scorching energy prices lifted the Bloomberg Commodity Index to levels not seen since 2013. As a result, this exacerbated already-elevated inflationary pressures, pushing global central banks to ramp up their hawkish rhetoric. Against this backdrop of surging commodities, Q1/2022 saw commodity-exporting currencies take the lead with AUD, NZD, CAD, NOK and, in the emerging market space, BRL, ZAR, COP and MXN all picking up some strength against the USD. Conversely, major oil-importing currencies traded on the defensive, namely JPY, TWD and KRW. Moreover, due to the ongoing Russia/Ukraine conflict and the energy supply disruption to Europe, the EUR was also a notable laggard this last quarter. Looking ahead to Q2/2022, this theme will likely continue, as the situation in Ukraine remains uncertain. A more keen focus on terms of trade dynamics may continue to favour commodity producers and exporters over consumers and importers.

As for USD/CAD, the pair saw a modest 1% decline last quarter and we anticipate a bit of range-bound trading in the months ahead. Aside from the rally in energy prices, which have surely introduced an inflationary shock, we are also essentially at peak hawkishness for both the Fed and BoC. At the time of writing, market expectations are calling for nearly nine rate hikes this year from both central banks. Given the fact that both camps are committed to taming inflationary pressures, the lack of any significant monetary policy divergence on the surface should keep USD/CAD from seeing a material breakout or the beginning of a new long-term trend in either direction.

We expect continued reduction in the risk premium currently priced into the FX market. The Deutsche Bank FX Volatility Index (CVIX), a broad measure of the market's expectation of future currency volatility, has been trending lower after trading at its highest level since the onset of the 2020 pandemic. USD/CAD three-month risk reversals, which show the difference in volatility between liquid out-of-the-money calls and puts, have also been trending lower, albeit the reading is still positive. This suggests that while the volatility of USD/CAD calls continues to be greater than the volatility of similar puts, market participants are scaling back their bets on, or hedges against, a rise in USD/CAD. However, US/Canadian front-end yield spreads have greatly narrowed over recent months (+USD), which has been helping to keep USD/CAD more or less well supported despite the recent rally in energy prices.

Asset Allocation Committee

Nadeem Kassam, MBA, CFA (Chair)
Head of Investment Strategy
Raymond James Ltd.

Tavis C. McCourt, CFA
Institutional Equity Strategist
Raymond James & Associates

Ellis Phifer, CFA, CMT
Managing Director, Fixed Income Capital Markets
Raymond James & Associates

Ed Mills
Managing Director, Washington Policy Analyst
Raymond James & Associates

Scott J. Brown, Ph.D.
Chief Economist
Raymond James & Associates

Sean Boyle, MBA
Co-head of Institutional Sales
Raymond James Ltd.

Douglas Drabik
Senior Retail Fixed Income Strategist
Raymond James & Associates

Sean Martin, MBA, CFA
Managing Director, Investment Banking - Head of Financial Institutions and Financial Technology
Raymond James Ltd.

Ajay Virk, CFA, CMT
Head Trader, Currencies
Raymond James Ltd.

Eve Zhou
Multi-Asset Analyst
Raymond James Ltd.

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