RAYMOND JAMES®

PRIVATE CLIENT SOLUTIONS

ASSET ALLOCATION QUARTERLY

- GLOBAL ECONOMIC GROWTH SLOWS FROM PEAK LEVELS
- EXPECT ELEVATED VOLATILITY HEADING INTO H2/2022
- INFLATION TO REMAIN ABOVE TREND
- RECESSION RISKS ARE RISING
- REMAIN SELECTIVE & WELL DIVERSIFIED

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Quarterly Outlook: Stop! Hammer Time.

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Abraham Maslow once said, "If the only tool you have is a hammer, everything looks like a nail". This unfortunately accurately reflects the current economic backdrop with soaring inflation (*a lagging/historical indicator*) with global central banks hammering away at this odd shaped "nail" with the only tool they have - rate hikes. It's worth mentioning here that changes in monetary policy not only have a delayed impact on the real economy but they also do very little to help alleviate inflationary pressures associated with China lockdowns, Saudi drilling, Texas drilling, quarantines, refining capacity, war, supply-chain on-shoring, etc. Moreover, as we look ahead, we continue to expect the level of uncertainty to remain elevated as central banks continue to tighten policy despite the growing risks of a hard-landing/recession. While we believe there are "fewer and fewer places to hide across markets" amid all the worrisome headlines or "wall of worries" as we like to refer to them as, we believe for longer-term oriented, patient, and prudent investors, there are many opportunities to invest in today and likely more to come in following months. Stay selective and well diversified!

Key Takeaways:

- **A dramatic fall from peak…**While we expected several factors to remain headwinds for the economy and markets in 2022 including elevated inflationary pressures and higher-rates, a few others were unknown at the start of the year which have only helped to further cloud the economic outlook. That said, we continue to expect further downward revisions to global real GDP growth forecasts across both the advanced and emerging economies for 2023. The latest forecasts for global growth puts real GDP at +2.3% year-over-year (YoY) for 2022, down from +3.0% YoY as of our last quarterly update, and now below the long-term 20-year average of +3.2% YoY. That said, "The cleanest dirty shirts" still remain the US and Canadian economies.

- **Recession risks rising.** As we expected, the Bank of Canada (BoC) and the US Federal Reserve (Fed) have been aggressive in raising rates, even becoming more forceful in their latest increases following stronger than expected inflation numbers. With the central banks continuing to fight inflation by raising policy rates, the 3mo10s yield US curve (10-year yield minus the 3-month yield) will likely continue to flatten, indicating that North America (and the rest of the world) is heading toward a recession. When or how deep of a recession remains the question, but we note that the more aggressive central banks are today, the higher the likelihood that something breaks and results in a much deeper and more prolonged contraction.

- **Few places to hide - moderating equity overweight.** We suggest investors remain selective, well-diversified, and focus on de-risking their portfolios (i.e., close/reduce portfolio blind-spots and/or tighten active relative bets). We continue to prefer high-quality and durable businesses that are trading at attractive valuations, with a preference for value > growth stocks, and a slight preference for the broader S&P/TSX over the S&P 500 index > MSCI EAFE index > MSCI EM index.

- **Moderating underweight to fixed income & cash – moving closer to neutral.** For Canadian investors, Canadian government interest rates are higher across most of the yield curve, so we suggest an overweight to Canadian bonds. In the corporate market, we would continue to be very selective.

Contents

Asset Allocation Recommendations

Tactical (9-12 month) Asset Allocation Recommendations

	-	Neutral	+	Comments
Equity				We remain overweight equities as we continue to see good relative risk/reward opportunities, despite the elevated level of uncertainty. However, we note that all equities are not created equally and suggest investors remain highly selective & well-diversifed.
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. As valuations for the index have come down from peak levels and now trading back in line with historical valuations, we view this segment of the US market as attractive especially given the alternatives.
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 the most compelling risk/reward opportunities within the US mid-cap space. 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.
Canadian Large Cap (S&P/TSX 60)				We see good value across the broad Canadian market relative to US/global equities. In particular, we have a favourable view on high-quality-equities and select defensive equities trading at reasonable valuations with durable earnings/cash flow profiles.
Canadian Small-Mid Cap (S&P/TSX Composite)				We see good value across the broad Canadian market relative to US/global equities. In particular, we have a favourable view on high-quality-equities and select defensive equities trading at reasonable valuations with durable earnings/cash flow profile.
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.
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 growing risk of the latest central bank tightening cycle ending in a recession, we suggest investors begin to increase their weighting towards neutral. We see the most attractive oportunities in longer duration bonds, particularly in the 7-10 year part of the curve.
US Government (Bloomberg US Treasury Total Return)				We suggest investors increase weigthing towards a neutral allocation to US government bonds as the risk of recession increases. However, we would avoid the shorter end of the curve (1-3 years) and begin to add US government bonds from 7-10 years.
US Corporate (Bloomberg Barclays U.S. Corporate Bond)				US investment grade corporate bonds continue to offer good 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 investors increase weigthing towards a neutral allocation to Canadian government bonds as the risk of recession increases. However, we would avoid the shorter end of the curve (1-3 years) and begin to add US government bonds from 7-10 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)				As as the broader risk-off theme is expected to continue, we can expect the USD to benefit from its safe-haven status. As a result, we are maintaining our bullish outlook for USD/CAD and see no conclusive reason to deviate from this stance at this time.
Cash				Raising cash to neutral and reducing weight to risk assets.

Market Commentary

Global Economic Outlook: Murky Waters Ahead

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The first half of 2022 is one that many of us would prefer to forget, especially as the economic and investing climate has made a complete 180-degree turn since the calm of 2021. Major equity/commodity markets have since entered bear market territory, with bond markets selling off simultaneously. Persistently high levels of inflation are to blame and which have forced the hands of many central bankers to raise interest rates and tighten policy rather quickly, while at the same time minimizing the level of collateral damage on the economy/labour markets. We note this is not an easy task in the best of environments, as history shows that past tightening cycles have typically ended in a recession or hard-landing. In our view, this time is no different, with the rate of change in both financial and economic variables occurring much more rapidly than recent memory would suggest (i.e., rate hikes, change in yields, market sell-off, etc.). We note a lot has changed in a very short time frame, which we believe has helped to amplify the normal ebbs and flows of the market. Moreover, as we look ahead over the next 9-12 months, we continue to expect the level of uncertainty to remain very elevated, with "few places to hide" amid all the worrisome headlines or "wall of worries" as we like to refer to them as. That said, for longer-term oriented, patient, and prudent investors, we see many opportunities to invest in today and more likely to come in the following months.

A dramatic fall from peak growth…

While we expected several factors to remain headwinds for the economy and markets in 2022 including, elevated inflationary pressures and higher policy rates, several others factor were unknown at the start of the year which have only helped to complicate matters and cloud the outlook further (e.g., the Russian invasion of Ukraine and the on-again/off-again COVID-19 lockdowns across China). Taken together these forces continue to weigh on the economic picture for the second half of 2022 and into 2023, with many questions still remaining unanswered (e.g., is there a likelihood we see an escalation in the war in Europe, a housing collapse in Canada/globally, inflation that stays elevated for longer, etc.). Since our last update (*click image above*) we have already observed a significant downward revision to 2022 global real GDP growth forecasts across both advanced and emerging economies, with greater downside revisions for advanced economies (incl. US, Canada, and UK) for 2023. The latest forecasts for global growth puts real GDP at +2.3% YoY for 2022, down from +3.0% YoY from our last quarterly update, and also now below the long-term 20-year average of ~3.2% YoY.

Real GDP Growth Slowing From Peak Levels [LHS]; Real GDP Growth Revised Lower QoQ [RHS]

27-Jun-22	Average 2000-2020	Real GDP Growth Forecasts 2021	2022	2023	2024
World	**3.2%**	**6.2%**	**2.3%**	**3.6%**	**3.2%**
Advanced Economies	**1.4%**	**5.2%**	**2.5%**	**1.6%**	**1.6%**
US	***1.8%***	***5.7%***	***2.3%***	***1.2%***	***1.5%***
Canada	***1.8%***	***4.5%***	***3.8%***	***1.7%***	***1.7%***
Euro	1.0%	5.3%	2.3%	1.8%	1.8%
UK	1.2%	7.4%	3.3%	1.4%	1.5%
Japan	0.6%	1.7%	2.3%	2.7%	1.2%
Australia	2.6%	4.8%	4.8%	2.2%	1.5%
Emerging Economies	**4.7%**	**6.8%**	**2.2%**	**5.1%**	**4.2%**
Emerging Asia	6.1%	7.4%	3.3%	6.3%	4.8%
China	7.3%	9.0%	0.0%	7.0%	4.0%
India	6.4%	8.3%	9.3%	6.5%	7.0%
Russia	3.6%	4.7%	-12.0%	-1.5%	3.5%
Brazil	2.1%	4.6%	1.3%	1.8%	1.5%
Mexico	1.6%	4.8%	1.8%	2.0%	1.8%

Change (p.p.)	Real GDP Growth Forecasts 2021	2022	2023
World	**0.3**	**-0.7**	**0.0**
Advanced Economies	**0.0**	**-0.8**	**-0.5**
US	***0.0***	***-0.8***	***-0.8***
Canada	***-0.1***	***0.0***	***-0.8***
Euro	0.0	-0.5	-0.2
UK	-0.1	-0.7	-0.6
Japan	0.0	-0.5	0.5
Australia	0.1	-0.2	-0.3
Emerging Economies	**0.4**	**-0.6**	**0.5**
Emerging Asia	0.5	-1.2	0.6
China	0.8	-2.5	2.0
India	0.2	0.1	-1.0
Russia	0.0	0.0	0.0
Brazil	0.0	0.5	0.0
Mexico	0.0	-0.2	-0.5

Source: Capital Economics; Raymond James Ltd.; Raymond James Financial; Data as of June 27, 2022.

US Breakevens (2-, 3-, 5-, and 10-year) represent a measure of expected inflation for a stated maturity in the future.

Signs of peak inflation are evident, but inflation is likely to stay above-trend

While forward inflation expectations (US 2-, 5-, 10-year Breakevens) have continued to fall from peak levels observed in March/April of this year, we continue to expect inflationary pressures to remain a headwind for markets and consumers in 2022/2023. We note that inflationary impulses have broadened out beyond the volatile components such as food and energy to include services and now wages. We have already begun to see the impacts of these persistent pressures, with the collapse in consumer sentiment. While we continue to anticipate some relief from base effect impacts as we move further into the year, the uncertainty associated with the war in Europe and the slowing global demand picture remain a wild card for commodity markets and other volatile components of CPI. This coupled with ongoing labour shortages globally and a still relatively strong consumer/corporate demand picture, suggests to us that inflation will remain stickier over the very immediate term while moderating back towards the trend over the medium term. And while increases in the overnight rate from global central banks are likely to soften global growth and demand-side inflationary impulses in the future, these changes have less of an impact over the immediate short-term.

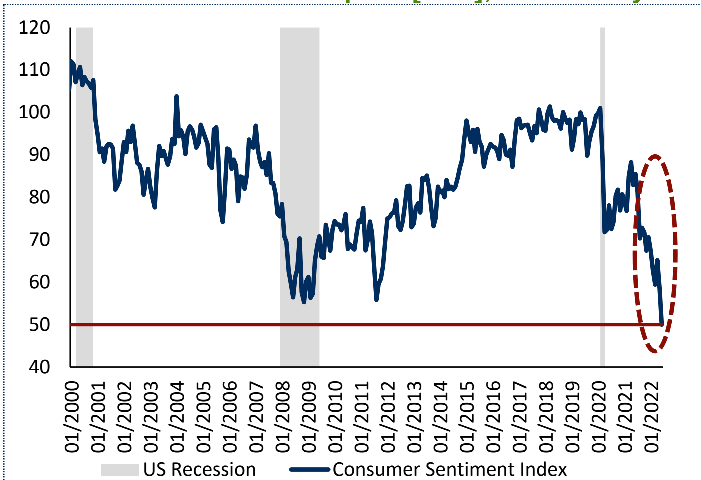
Inflation Still Running Too Hot [LHS]; Labour Shortages for G7 Countries Improving [RHS]

27-Jun-22	Average 2000-2020	2021	Inflation Forecasts 2022	2023	2024
World	**3.6%**	**3.5%**	**6.3%**	**3.4%**	**2.4%**
Advanced Economies	**1.7%**	**3.2%**	**6.9%**	**2.7%**	**1.4%**
US	2.1%	4.7%	7.6%	2.2%	1.4%
Canada	1.9%	3.4%	7.0%	2.9%	1.8%
Euro	1.6%	2.6%	7.5%	3.3%	1.5%
UK	2.0%	2.6%	8.8%	5.0%	1.6%
Japan	0.1%	-0.2%	2.0%	1.1%	0.3%
Australia	2.5%	2.9%	6.2%	4.2%	2.5%
Emerging Economies	**5.0%**	**3.8%**	**6.0%**	**3.8%**	**3.0%**
China	2.6%	0.9%	1.5%	1.0%	1.0%
India	5.9%	5.1%	7.1%	5.2%	3.9%
Russia	10.5%	6.7%	14.5%	6.3%	4.8%
Brazil	6.2%	8.3%	10.0%	4.8%	4.0%

Geography	Jul 2021	Aug 2021	Sep 2021	Oct 2021	Nov 2021	Dec 2021	Jan 2022	Feb 2022	Mar 2022	Apr 2022	May 2022
US	3.7	3.6	3.6	3.9	3.7	3.1	2.8	3.1	2.9	2.7	2.5
Canada	2.1	2.7	2.4	2.9	2.8	2.4	2.7	2.7	2.4	2.3	2.3
UK	3.9	4.3	4.3	4.5	4.5	4.1	4.0	3.9	3.8	3.6	
Japan	0.5	0.6	1.0	1.3	1.5	1.7	1.5	1.4	1.7	1.3	
Germany	3.1	3.2	3.3	3.5	3.5	3.6	3.5	3.5	3.5	3.5	
France	1.7	1.8	2.0	2.5	2.8	2.8	2.9	2.9	2.7	2.3	
Italy	2.9	3.0	3.4	3.8	4.0	4.2	3.7	3.5	3.5	3.6	
Euro-zone	3.0	3.1	3.3	3.6	3.6	3.6	3.5	3.6	3.8	3.8	
G7	2.9	3.1	3.2	3.6	3.7	3.5	3.4	3.4	3.3	3.2	

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

Consumer Sentiment Collapses [LHS]; Commodity Prices Have Softened from Peak Levels [RHS]



Source: Bloomberg; FactSet; Raymond James Ltd.; Raymond James Financial; Consumer Sentiment as of May 31, 2022; S&P GSCI Index performance as of July 8, 2022.

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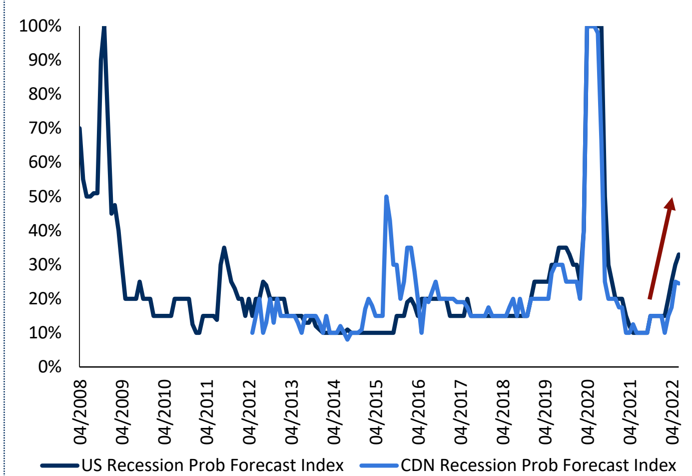
...we believe rates hikes will help to slow the economy and demand side inflationary impulse with a growing probability that central banks hike into a recession - the odds of which have only increased since the beginning of the year.

Don't fight the Fed, BoC, BoE, ECB, RBA, etc.

We remind investors that "bull markets rarely die of old age, rather they get slaughtered by Fed". With markets down more than 20% from the recent peak across major equity indices in the US/globally, central banks have effectively done just that – killed one of the strongest bulls in record time. While we were expecting tighter policy in 2022, the persistently high-levels of inflation coupled with strong labour market conditions across most regions, has resulted in a more relentless focus by central banks to get inflation under control. We note that financial conditions have tightened quite martially since the beginning of the year and also since Q4/2021, when the Fed abandoned its "transitory" rhetoric. Financial conditions are now above pre-COVID-19 levels, with emerging markets across Europe (ex. Russia) experiencing conditions tighter than those observed during the depths of the COVID-19 crisis. We expect the unrelenting hawkish rhetoric will continue over the short-term or until there are signs that inflation is no longer a concern. However, given the lag effect of policy changes on the economy, we believe rates hikes will help to slow the economy and demand-side inflationary impulse with a growing probability that central banks hike into a recession – the odds of which have only increased since the beginning of the year (the odds of a recession over the next 12 months is ~25% and ~33% for Canada and the US, respectively).

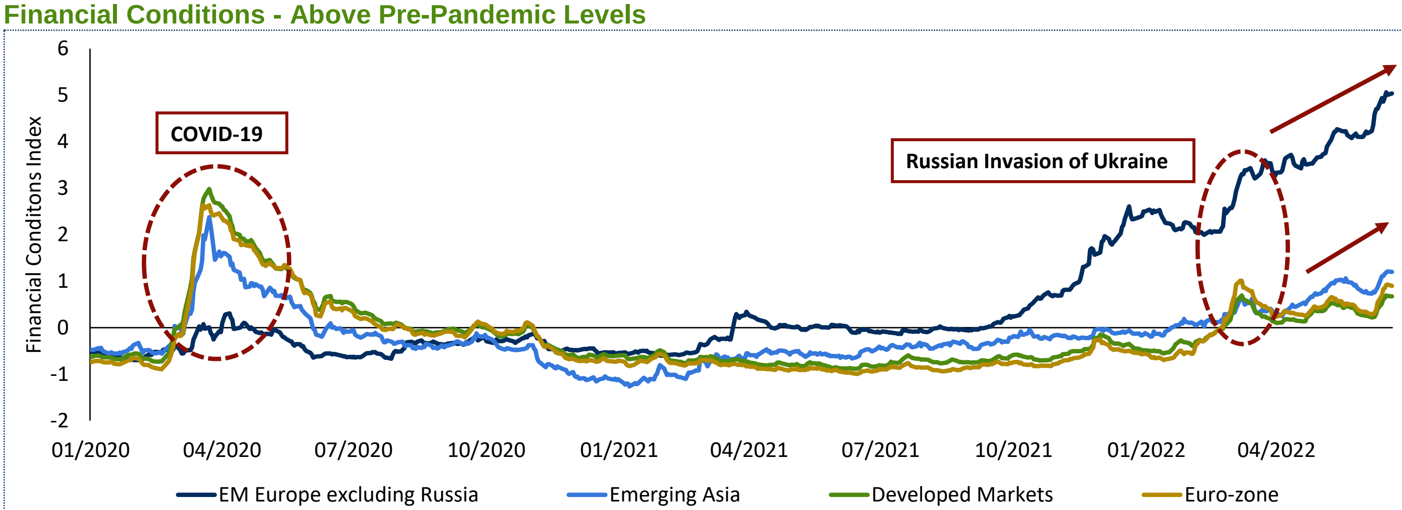
Policy Rate Forecasts Suggest a Coordinated Tightening Posture [LHS]; Recession odds Rise [RHS]

27-Jun-22			Policy Rate Forecasts		
	2020	2021	2022	2023	2024
Advanced Economies					
US	0.13%	0.13%	3.63%	3.88%	3.63%
Canada	0.25%	0.25%	3.00%	3.00%	2.50%
Euro	-0.50%	-0.50%	1.25%	2.00%	2.00%
UK	0.10%	0.25%	2.25%	3.00%	2.50%
Japan	-0.10%	-0.10%	-0.10%	-0.10%	-0.10%
Australia	0.10%	0.10%	3.10%	3.35%	3.10%
Emerging Economies					
China	2.20%	2.20%	2.10%	2.10%	2.10%
India	4.00%	4.00%	6.15%	6.40%	6.40%
Russia	4.25%	8.50%	7.50%	5.50%	5.50%
Brazil	2.00%	9.25%	14.00%	11.00%	7.50%



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

Financial Conditions - Above Pre-Pandemic Levels



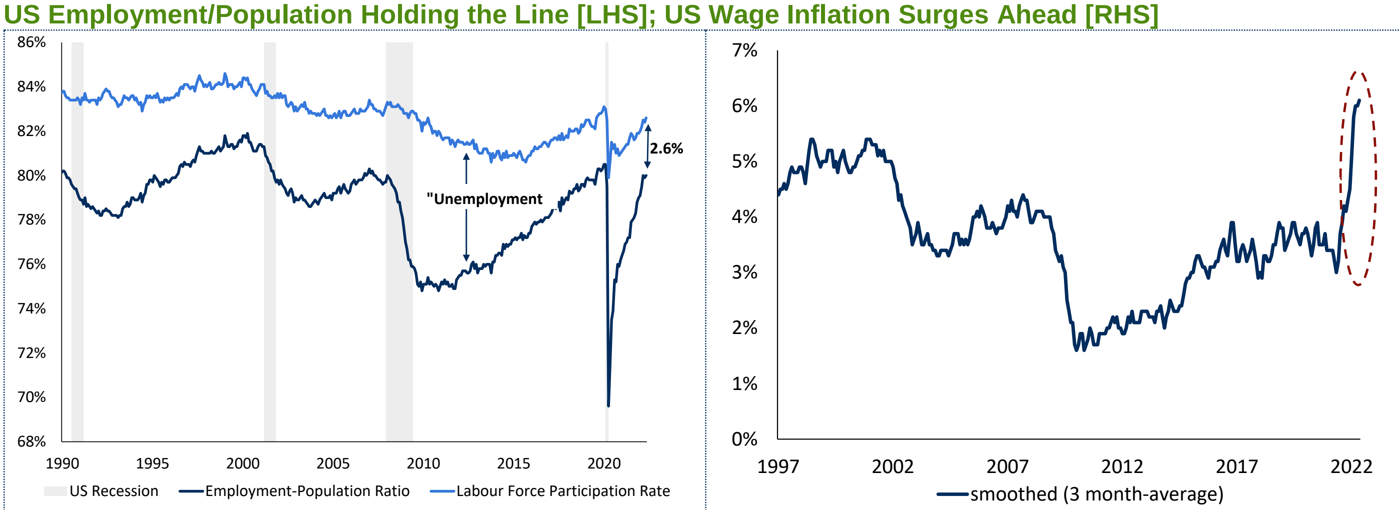
Source: Capital Economics; Raymond James Ltd.; Raymond James Financial; Data as of June 20, 2022

US Economic Outlook: If a Hammer Is Your Only Tool

We see a higher possibility that the US economy experienced a decline in Q2 GDP - this would meet the two consecutive quarters of negative growth threshold used to define recessions in most countries.

The US economy emerged from the pandemic on a solid footing, but since the beginning of the year, growth has continued to slow with Q1 GDP contracting. We now see a higher probability that the US economy experienced a further decline in Q2 GDP - this would meet the two consecutive quarters of negative growth threshold used to define recessions in most countries. According to the Federal Reserve Bank of Atlanta and their running estimate for Q2 GDP, they are forecasting a further contraction of 1.2% in Q2. This in our view would be a bit peculiar to see since the latest monthly employment and activity data points paint a significantly more upbeat picture. The coincident indicators used by the National Bureau of Economic Research (NBER) to mark turning points in the US business cycle (non-farm payroll employment, retail sales, industrial production and real incomes excluding transfers) have all been increasing at a rapid clip in recent months, and not yet near recessionary territory. Job growth, for example, has stayed strong, with the unemployment rate remaining at 3.6% as of June. In fact, during the first half of 2022, non-farm payroll employment has increased at a neck breaking speed of ~457,000 a month on average resulting in ~1.9 job postings for every active job seeker.

US Employment/Population Holding the Line [LHS]; US Wage Inflation Surges Ahead [RHS]



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

As noted above, US inflation has increased rapidly, reflecting a growing imbalance between supply and demand, which has now broadened out. The Fed has begun to raise short-term interest rates aggressively, and in our view, will likely continue to maintain its hawkish tone especially following the June CPI print, which showed inflation rose by 9.1% YoY on an annualized basis, versus consensus at 8.8%. Fed Funds Futures have now factored in a 75 bps hike for the July meeting with a 65% chance for an additional 25 bps hike at the same meeting to take the total to 100 bps.

Household balance sheets are currently in good shape – debt is much lower relative to incomes, the average credit quality of that debt is higher and, even allowing for the most recent slump in stock markets, household net worth will remain significantly above its pre-pandemic level. Higher interest rates will raise the household debt servicing cost from 9% of disposable incomes to 11%, but we suspect households can cope with such an increase, in part by reducing their saving rate further.

Furthermore, pent-up demand caused by the acute supply shortages that built up during the pandemic should now support both consumption and investment over the next 12 months, particularly in those sectors like motor vehicles and housing that are usually the most sensitive to higher interest rates. In addition, despite reports that some specific retailers have found themselves saddled with too much inventory, the aggregate data shows that inventories are still unusually lean, indicating that there is scope for a further rebuilding. Finally, in stark contrast to the first half of this year when prices surged, we expect the recent drop in commodity prices, to help boost real incomes again.

Washington Policy: Economic Policy Sprint as Wall of Worry Builds for Markets

In terms of the path forward, we see the most likely path as one where resolution on these factors begins to ease some pressures, which could see massive upside swings based on current economic trends and data.

Macro overhangs continue to weigh on U.S. markets with high uncertainty on the path forward, likely continuing pressure and raising volatility. Primarily, inflation concerns, recession fears, the direction of monetary policy, the continuing impact of the pandemic, and persistent geopolitical risk (Russia/China) are the building blocks that have supported a heightening wall of worry over the macro-environment. While these significant and simultaneous concerns have likely been priced in, the direction of the market remains highly uncertain and volatile. In terms of the path forward, we see the most likely path as one where resolution on these factors begins to ease some pressures, which could see massive upside swings based on current economic trends and data. However, significant downside risk will remain an overhang. If any one factor worsens or escalates unpredictably, the cumulative impact is likely to be one of a significant downward move in markets.

The uncertain market environment comes as DC shifts into a summer/fall policy sprint ahead of the November's midterm Congressional elections. The U.S. political environment may drive market-impactful headlines that boost investor sentiment or pose additional risks. We are closely watching the Biden administration's summer policy sprint on key fiscal policy decisions that could produce new domestic manufacturing incentives for critical technology, enact healthcare/drug policy changes, extend student loan relief, and lower tariffs on imports from China. While some of these key catalysts can advance purely with presidential executive authority (student loans/tariffs), others will need legislation passed by Congress (domestic manufacturing/healthcare programs).

The top priority for Congress will be a semiconductor manufacturing incentives package that seeks to restore domestic manufacturing of semiconductors with an eye towards longer-term economic competition with China. Domestic semiconductor subsidies have a significant level of bipartisan support, but the challenge for Congressional leaders will be finding a compromise with Republicans while balancing political, economic, and national security concerns in a bill this close to an election cycle. The Biden administration is also facing difficult political trade-offs with pending decisions on student loan relief, and the reduction of import tariffs on consumer goods from China. While we see both as possible, offsetting policy actions to limit the political blowback can ultimately reduce public satisfaction around policy decisions and raise risks. This is particularly true of the tariff decision, which may be tied to a new investigation into China's non-market economic practices.

Generally, the Biden administration's approach has been one that seeks to thread the needle and offset political costs. While we generally expect key fiscal policy decisions heading into the fall election cycle, the ultimate impact will be debated, and uncertainty on the longer-term outlook is likely to persist over the near-term.

Canadian Economic Outlook: If a BIG Hammer Is Your Only Tool

A soft landing is the goal, but similar to the Fed, way more difficult to engineer when the only tool available is a hammer.

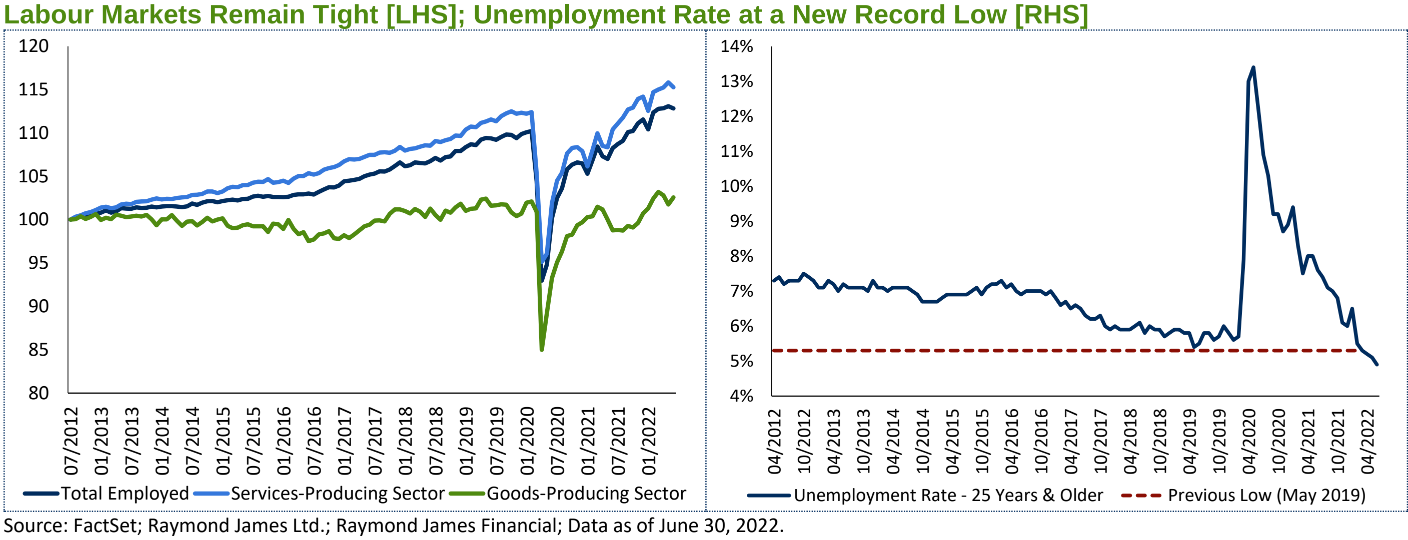
We expect economic growth to expand by ~3.8% YoY in 2022, down from very strong levels in 2021 (+4.5% YoY in 2021 vs. the 20 year average of 1.8% YoY). However, while this outlook still appears to be quite rosy should it come to fruition, we note that the aggressive tightening posture by the BoC, which is expected to raise overnight rates to between 3.0% – 4.0% by year end, up from 2.50% today, is likely to have a material impact on the growth outlook. We believe higher rates and the ongoing unwind of the balance sheet will work to slow the quarterly pace of GDP growth to below trend in 2023, as residential investment falls from its elevated levels. This coupled with weaker commodity prices, we hope, should at least help to pull consumer price inflation from around the 8.0% level today back towards more reasonable levels of ~3% by year end 2023, and towards 2% by the end of 2024.

Following the latest increase in the policy rate by the BoC - 100 basis point increase on July 13, 2022 - coupled with expectations that more hikes are on their way for later this year, we believe has only raised the risks of a housing-induced economic downturn. Moreover, a widening of mortgage spreads, and news that at least one lender is restricting new loan applications (Magenta Capital Corporation) suggests to us that the outlook for house prices and activity could come in worse than feared.

Running contrary to the above is the current employment situation, including the latest jobs numbers, which suggests that the labour market remains strong. The tightness in the labour markets while good for the working age population, it is not as great for the BoC, which is looking to see inflationary impulses fall before they slow/end their tightening efforts. As of the end of June, the unemployment rate hit a new cycle low of 4.9%, with the participation rate falling slightly to 64.9%, while wages rose 5.2%, but at slower than the pace of inflation.

A soft landing for the economy is the goal for every central banker around the world today, but way more difficult to engineer when the only tool available is a hammer. Given this, we see a growing risk of a hard landing for the Canadian economy due to elevated house prices and household debt. We note, if given the option of a recession or high/elevated levels of inflation, every central banker would choose a recession.

Labour Markets Remain Tight [LHS]; Unemployment Rate at a New Record Low [RHS]



Source: FactSet; Raymond James Ltd.; Raymond James Financial; Data as of June 30, 2022.

Equity Allocation (Overweight): Few Places to Hide

We suggest investors remain selective, well diversified, and focus on de-risking their portfolios (i.e., close/reduce portfolio blind-spots and/or tighten active relative bets!)

We expect the wind to continue to blow markets in all directions in H2/2022, similar to what we have observed so far this year, with the path of least resistance suggesting more downside from current levels. That said, we foresee a period of uncomfortably high levels of inflation and volatility across equities with few places to hide. We suggest investors remain selective, well diversified, and focus on de-risking their portfolios (i.e., close/reduce portfolio blind-spots and/or tighten active relative bets!)

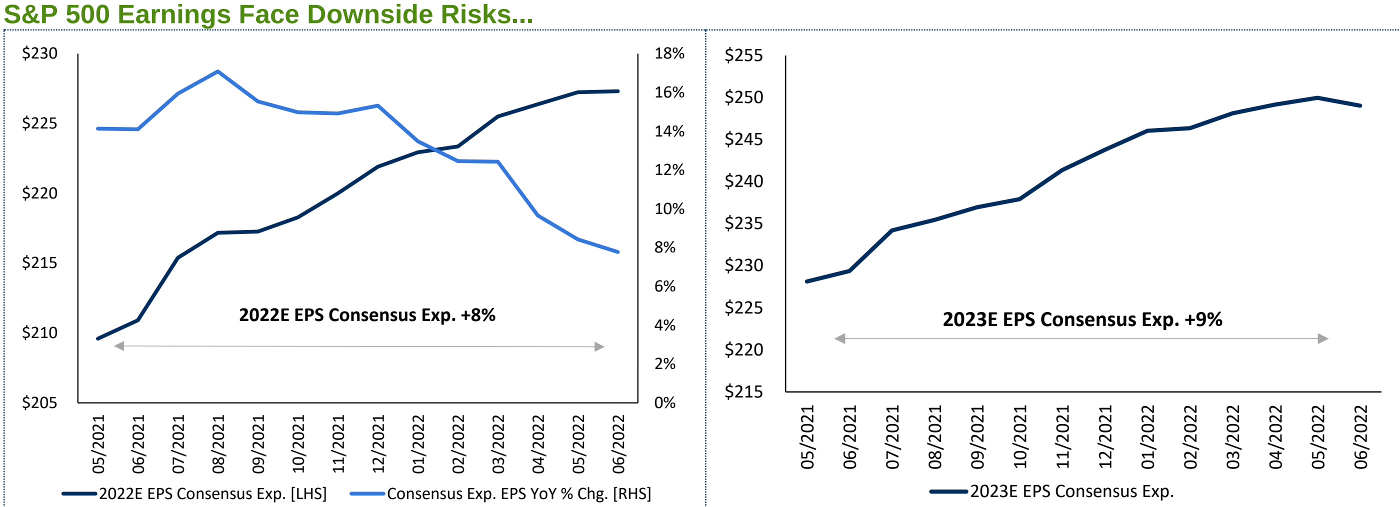
US Equities (Overweight)

From a board US market perspective (S&P 500 index), the only place investors have been hiding until now has been in the energy sector (rightly so) and a few other pockets, but with the expected slowdown in global growth and fears of a global recession, even this sector has sold off aggressively, despite tight supply/demand fundamentals. We believe companies with US-centric revenue streams and lower P/E / value stocks should outperform their higher multiple/growth stocks relatively.

S&P 500 consensus EPS expectations for 2022/2023E have continued to move higher since the beginning of the year, but at a declining pace while stocks have cratered. Street expectations are calling for 2022E EPS of ~$227 (+8% YoY) and for 2023E EPS of $249 (+9% YoY) - both of which remain slightly above the long-term trend of 7.8% YoY growth.

However, we see growing risks 2022 and 2023 EPS estimates will need to come down meaningfully due to inflationary pressures, rapid rate hikes across the world, and from the impacts of global geopolitical events on consumer and corporate spending patterns.

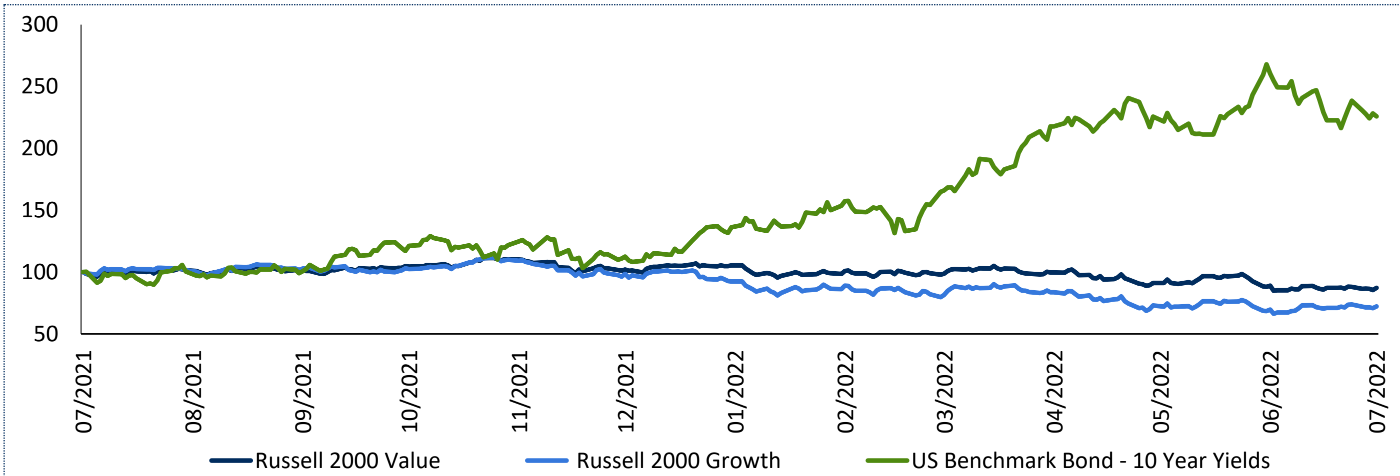
S&P 500 Earnings Face Downside Risks...



Source: FactSet; Raymond James Ltd.; Raymond James Financial; Data as of June 30, 2022.

Value stocks in the US (i.e., the Russell 2000 Value index) have continued to outperform growth stocks (i.e., the Russell 2000 Growth index) as yields have moved higher and economic/earnings growth has slowed from peak levels observed in 2021. We continue to emphasize that valuations matter in a rising rate and economic normalization/slowing growth environment, where economic growth and corporate earnings slow towards their historical trend, if not below. But remember, all value stocks are not created equally and neither are growth, so remain selective and factor in a healthy margin of safety should things worsen further from here.

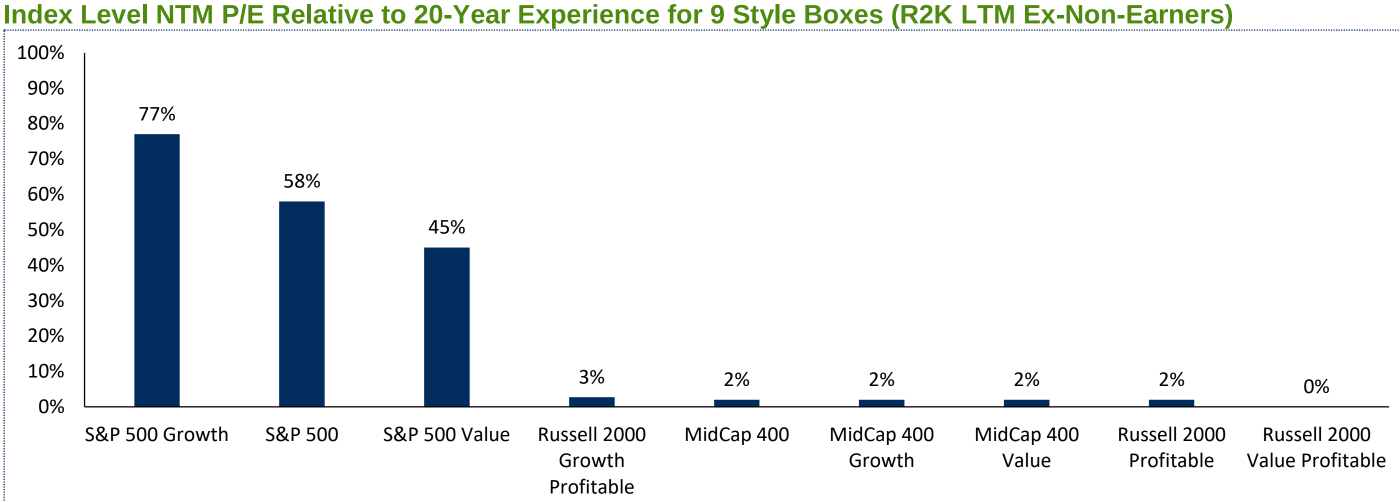
Russell 2000 Value/Growth Index vs. 10Y Yields



Source: FactSet; Raymond James Ltd.; Raymond James Financial; Data as of July 15, 2022.

The S&P 500 index is now trading at ~16x 2022E on P/E, which is near its 20-year average P/E, with the index down materially (or by -26%) and sitting firmly in bear market territory. We note that small and mid-cap indexes continue to trade at P/E levels that are essentially near their lowest levels in 20-years. But we would like to highlight that we are in a very volatile global economic environment with investors increasingly concerned that EPS needs to come down substantially, so it is increasingly likely these indexes are a bit more expensive than what consensus EPS would suggest.

Index Level NTM P/E Relative to 20-Year Experience for 9 Style Boxes (R2K LTM Ex-Non-Earners)



Source: FactSet; Raymond James Ltd.; Raymond James Financial; Data as of July 18, 2022.

Looking at the broader S&P 500 index from a top-down perspective, we see the greatest risks across sectors/industries that are trading at significant premiums to their historical valuations and more so, those sectors which are susceptible to downside earnings revisions as the economy slows, and inflationary cost pressures weigh on consumer and corporate spending.

S&P 500 Sector Valuations: Current vs. Historical PE NTM

	Sector Weight	Current PE NTM	Historical PE NTM (Since 2000)	Premium (+) / Discount (-)	YTD Return
S&P 500		**16.1**	**15.9**	**0.2**	**-19.1%**
Communication Services	9.1%	14.9	18.1	-3.1	-29.7%
Consumer Discretionary	10.9%	23.5	17.7	5.9	-31.5%
Consumer Staples	6.8%	20.2	18.0	2.2	-4.2%
Energy	4.2%	8.5	13.7	-5.3	33.7%
Financials	10.7%	11.3	12.4	-1.1	-17.6%
Health Care	15.0%	16.0	16.1	-0.2	-7.2%
Industrials	7.6%	16.1	16.0	0.2	-16.0%
Information Technology	27.2%	19.2	17.7	1.4	-26.7%
Materials	2.5%	12.5	15.4	-2.8	-17.3%
Real Estate	2.9%	18.2	17.9	0.3	-18.5%
Utilities	3.0%	20.1	14.6	5.5	1.9%

Source: FactSet; Raymond James Ltd.; Raymond James Financial; Data as of July 1, 2022.

We suggest in the current environment investors should focus on de-risking their portfolios, and being much more diversified until the big event happens, which we view as a market moving event that forces the Fed to stop raising rates with many global central banks following thereafter. It may be a financial event in Europe or Asia, or an inflation report that shows meaningful progress, or some abysmal US economic data later this year. When that event happens, investors would want to begin nibbling away at Industrials, Consumer Discretionary, Technology, and/or the most severely hit sectors/industries, but when this event occurs, we expect to see everything rally higher (e.g., Q1/2019).

So essentially, the bull case is the faster they raise, the faster they'll break something, and the faster they'll have to stop, even if inflation is high, because capitalism will ultimately solve inflation.

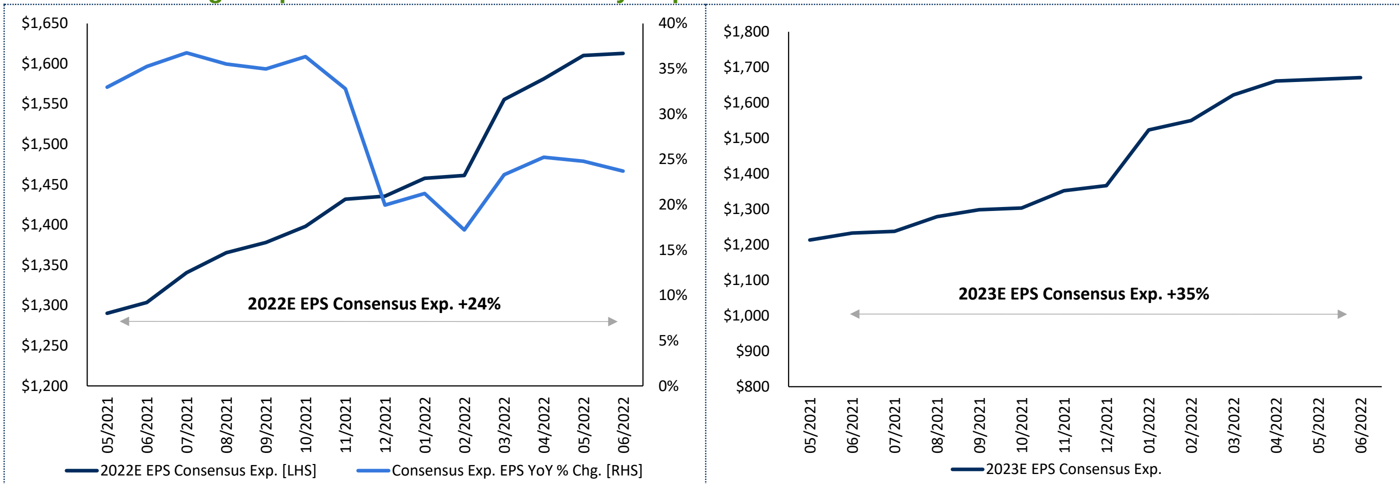
- **Bull Case** - The last time the Fed raised this quickly was in 1994 (the last 75bp move was Oct. 1994). By December 1994, Orange County, CA had gone bankrupt and Mexico was essentially insolvent, and Greenspan had to stop raising rates even though inflation was still +3% (there actually was no improvement in inflation from Jan-Dec. 1994 despite a 300 bp increase in rates, which is itself very interesting). So essentially, the bull case is the faster they raise, the faster they'll break something, and the faster they'll have to stop, even if inflation is high, because capitalism will ultimately solve inflation.
- **Bear Case** - The Fed won't stop until inflation is 2%, Europe doesn't matter, Japan doesn't matter, US employment doesn't matter, politics don't matter, the financial health of allies doesn't matter, the fact that the Fed has no control over China lockdowns, Saudi drilling, Texas drilling, quarantines, refining capacity, war, etc… no longer matters, they are committed to keep raising until inflation is 2%.

Canadian Equities (Overweight)

On a relative basis, we have a slight preference for the S&P/TSX index over the S&P 500 index which is currently trading at only ~11x P/E NTM earnings (versus the S&P 500 Index at ~16x), has a stronger relative earnings profile, and a ~18% weighting to energy (versus ~5% for the S&P 500 index) – we expect this to be positive tailwind for the index over the short-term while inflationary pressures remain elevated and energy markets remain tight.

The S&P/TSX index 2022/2023E consensus EPS expectations have continued to move higher since the end of 2021, but at a much slower pace. Current expectations are calling for 2022E EPS of ~$1613 (+24% YoY) and $1671 (+35% YoY) for 2023E. But as is the case for the S&P 500 index, we are seeing growing concerns by investors who are increasingly convinced 2022 and 2023 EPS estimates will need to come down meaningfully due to inflationary pressures, rapid rate hikes across the world, and the impacts from global geopolitical events on consumer wallets and corporate spending plans. However, given the larger relative weight of Energy stocks on the S&P/TSX, earnings could hold in better than the S&P 500 and continue to outperform in the second half of 2022.

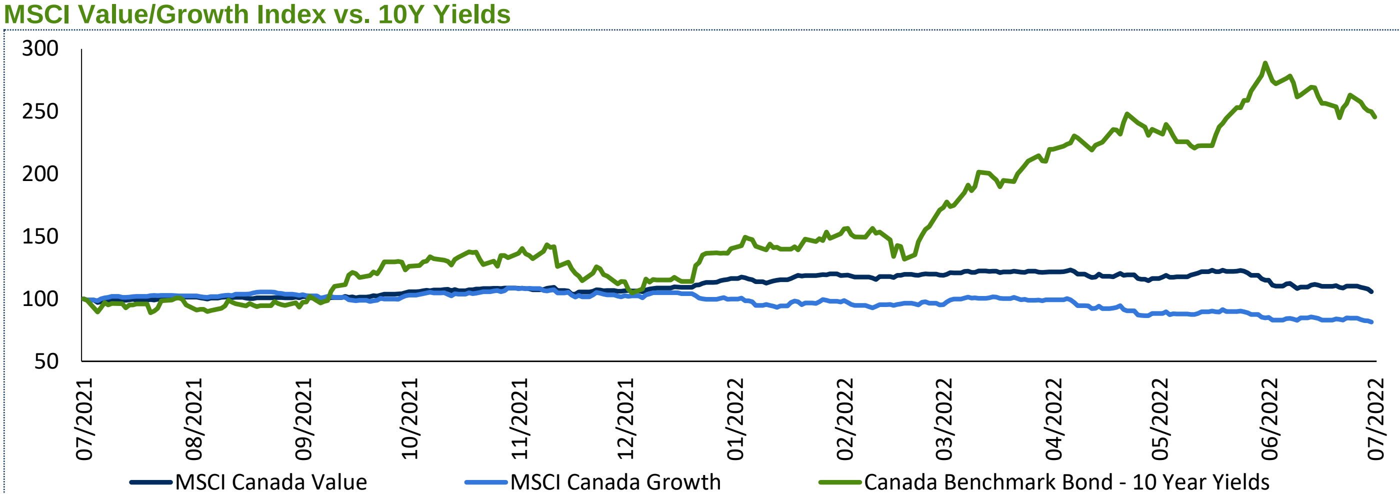
S&P/TSX Earnings Expected to Grow at a Healthy Clip



Source: FactSet; Raymond James Ltd.; Raymond James Financial; Data as of June 30, 2022.

Value stocks in Canada (i.e., the MSCI Canada Value index) similar to the US market have outperformed growth stocks (i.e., the MSCI Canada Growth index) as yields have moved higher. We expect yields to continue their trend higher as the BoC hikes rates and unwinds its balance sheet. Similar to the US market, we expect value stocks to outperform growth moving forward as yields continue to move higher, with corporate earnings beginning to slow more aggressively in the coming quarters and heading into 2023. However, given the value tilt of the Canadian market, we expect it to do better than the S&P 500 index in CAD terms.

MSCI Value/Growth Index vs. 10Y Yields



Source: FactSet; Raymond James Ltd.; Raymond James Financial; Data as of July 15, 2022.

For the S&P/TSX, we also expect valuations to contract further from current levels, but to a lesser degree than the S&P 500 index given less extreme absolute and relative valuations. With this in mind and from a top-down perspective, we see the greatest risks across sectors/industries that are trading at significant premiums to their historical valuations including those which are also most susceptible to downside earnings revisions as the economy slows, and inflationary cost pressures weigh on consumer and corporate spending.

S&P/TSX Sector Valuations: Current vs. Historical PE NTM

	Sector Weight	Current PE NTM	Historical PE NTM (Since 2002)	Premium (+) / Discount (-)	YTD Return
Canada S&P/TSX Composite		**11.5**	**14.5**	**-3.0**	**-9.9%**
Communication Services	5.2%	18.1	15.7	2.4	-0.7%
Consumer Discretionary	3.4%	12.2	14.3	-2.1	-17.1%
Consumer Staples	4.2%	15.7	15.8	-0.1	-1.1%
Energy	17.8%	8.7	15.3	-6.6	26.2%
Financials	31.9%	9.5	11.5	-2.0	-11.2%
Health Care	0.4%	16.3	16.5	-0.2	-53.9%
Industrials	12.2%	23.2	15.5	7.8	-9.3%
Information Technology	5.7%	29.2	21.2	8.0	-55.3%
Materials	11.3%	9.3	17.2	-7.9	-8.3%
Real Estate	2.7%	14.6	14.7	-0.1	-21.7%
Utilities	5.2%	23.8	17.9	5.9	1.3%

Source: FactSet; Raymond James Ltd.; Raymond James Financial.; Data as of July 1, 2022.

From a sector perspective, the only places investors have found solace in has been Energy, Materials, Utilities, Communication Services, Consumer Staples sectors. However, several of these sectors are either trading at premium valuations and or susceptible to inflationary pressures and/or the impacts of a slowdown in earnings from a global recession. That said, we believe Canadian/North American centric revenue streams and lower P/E stocks should outperform on relatively basis.

Fixed Income (Underweight): Getting Hammered

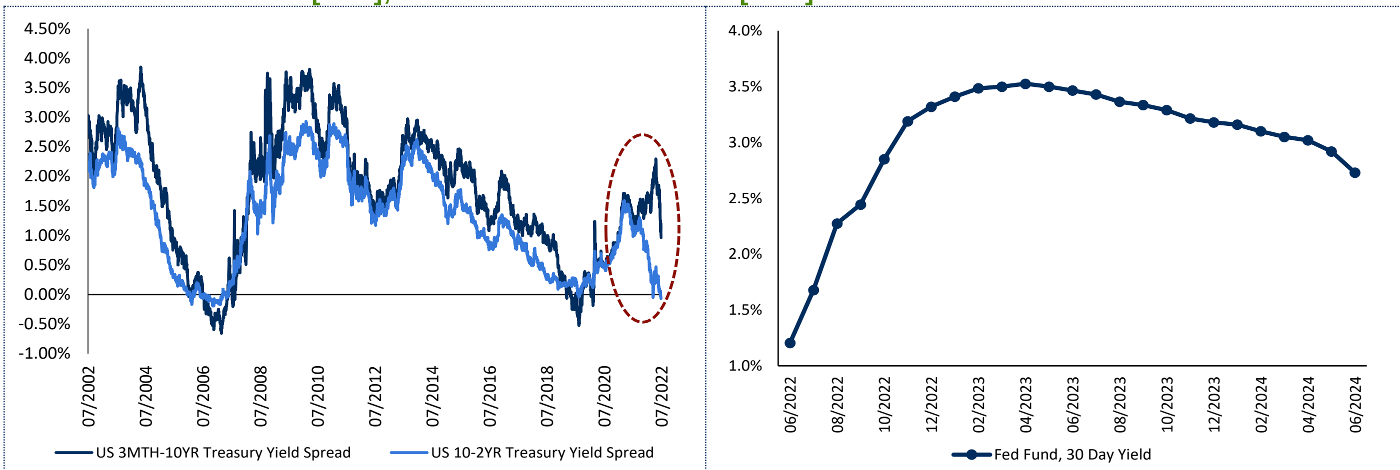
With Canadian and US central banks expected to continue tightening for now, we would continue to own floating rate and short mortgage products for holdings under two-years and begin to add five to seven year bullet maturities

As we expected, the BoC and the Fed have been aggressive in raising rates, even becoming more aggressive in their latest increases/forward guidance following higher than expected inflation prints. With the central banks continuing to fight inflation by raising policy rates, the 3mo10s yield US curve (10-year yield minus the 3-month yield) will likely continue to flatten, indicating that North America (and the rest of the world) is heading toward a recession. As we have discussed previously, the 2s10s US yield curve (10-year yield minus the 2-year yield) inverted, previously creating a media buzz and remains very flat. Until recently, the 3mo10s curve was too steep relative to the 2s10s curve, and we expected the 3mo10s curve would need to flatten further (3-month yields rising faster than 10-year yields) as the Fed continued to raise rates. With the current US 10-year treasury yield around 3.00%, the market expects the Fed Funds Target Rate at about 2.21% by the November 2022 Fed Federal Open Market Committee meeting in November, which would be above the current 10-year treasury note yield. While we cannot know for sure if the 10-year yield will hold near current levels, the overall yield curve should be much flatter and will spill over into the Canadian Yield Curve.

The Fed Funds futures markets are pricing in continued rate hikes until the first quarter of 2023, then a hold during the summer, followed by easing expectations in the fall of 2023, indicating a recession is expected to arrive by the summer to fall time period. If that scenario comes to fruition, investors should look to begin to increase their weightings in fixed income because rates typically peak at or before the time when the Central banks pause their rate hiking cycle, falling as the recession takes hold. Additionally, Canadian and US central banks are raising rates while economic data continues to disappoint. With Canadian and US central banks expected to continue tightening for now, we would continue to own floating rate and short mortgage products for holdings under two-years and begin to add five to seven year bullet maturities.

For investors with longer horizons, adding longer bullet maturities will benefit even more from a rate peak scenario.

US Yield Curve Flattens [LHS]; Fed Fund Futures Markets [RHS]

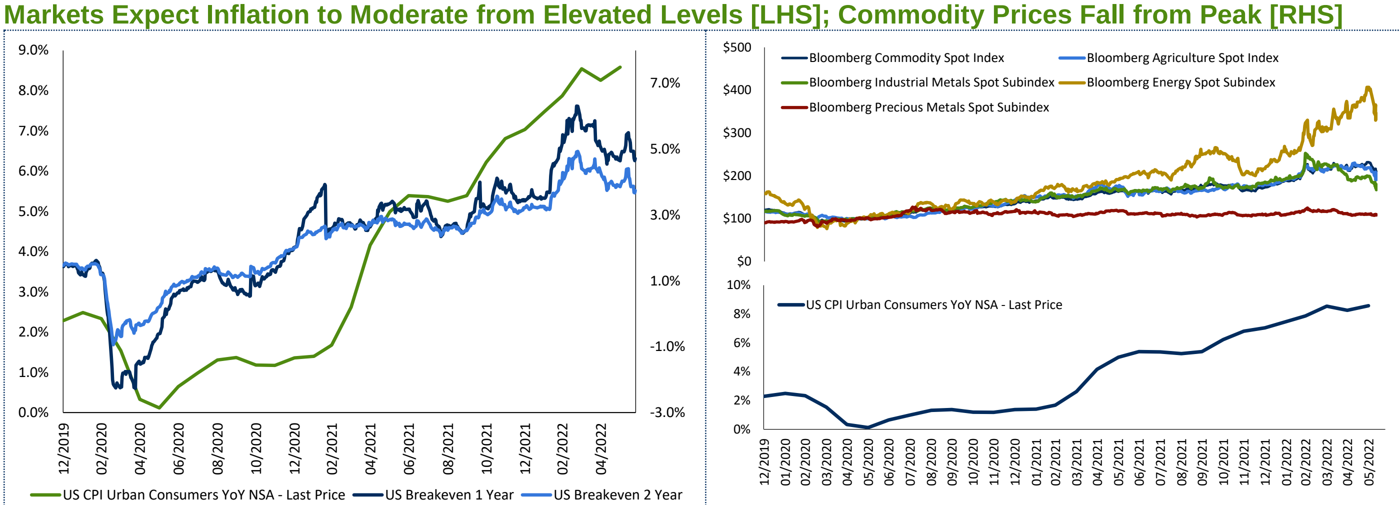


Source: FactSet; Raymond James Ltd.; Raymond James Financial; Yield spread data as of July 12, 2022; Fed fund 30 day yield as of June 26, 2022.

> ***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.***

One caveat to the above remains sticky inflation. The markets expect inflation to moderate and then decline over the next 24 months, which will add to the possibility of a rate peak scenario. The latest headline inflation rates for US and Canada was 8.6% and 7.7%, respectively. The two-year expected inflation rate priced into 2-year Treasury Inflation Protected Securities (TIPS) is around 3.74%, 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. On a positive note regarding inflation, the commodity complex has been in a price decline (save precious metals), which should help to ease commodity price pressure on inflation rates. The declines come in from not only an increasing belief that a recession is nearing and thereby slowing energy and industrial metals demand, but in better than expected crop harvest reports.

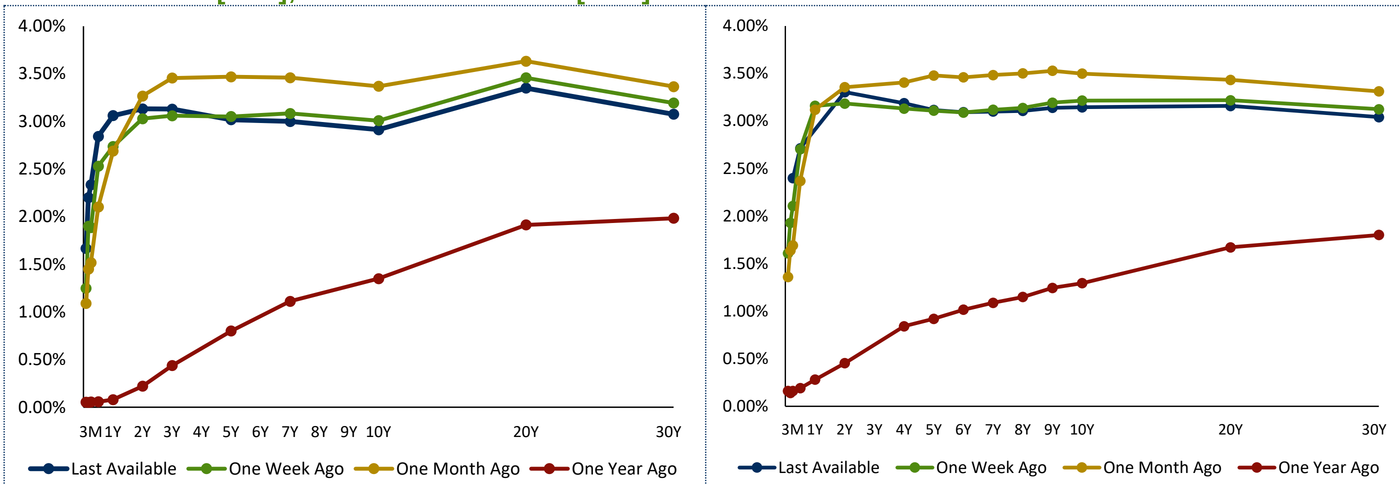
Markets Expect Inflation to Moderate from Elevated Levels [LHS]; Commodity Prices Fall from Peak [RHS]



Source: Bloomberg; Raymond James Ltd.; Raymond James Financial; Data as of June 26, 2022.

For Canadian investors, Canadian government interest rates are higher across most of the yield curve, so we suggest an overweight to Canadian bonds. In the corporate market, we would continue to be very selective.

US Yield Curves [LHS]; Canada Yield Curves [RHS]



Source: FactSet; Raymond James Ltd.; Raymond James Financial; Data as of July 13, 2022.

FX: Front-Loading Is the Name of the Game for the Bank of Canada

Tiff Macklem pointed out in his press release following the Bank's surprising 100bps rate hike, "by front-loading interest rate increases now, we are trying to avoid the need for even higher interest rates down the road." He also stated that his mission is to get the policy rate "to the top end or slightly above" the neutral range (2-3%) as quickly as possible. While the market continues to price in a marginally higher terminal rate than that of the Fed, the relative difference has not been material enough to provide CAD with any meaningful tailwind. The modest knee-jerk move lower in USD/CAD following the latest BoC rate decision was expected. However, bringing forward the inevitable pain for an overly indebted consumer base and market concerns about the domestic economic impact of the BoC's rate trajectory may prove troublesome for the CAD to sustain any meaningful strength. In the US, the Fed also has an inflation problem on its hands, and the odds of a similar 100bps rate hike have also increased. Looking ahead, the broader risk sentiment and safe-haven nature of the USD can be expected to dictate direction for the USD/CAD pair. We will continue to pay close attention to incoming economic data from both sides of the border to get a relative sense of how the macro picture fare against one another, along with broader geopolitical developments. As it stands, we are maintaining our bullish outlook for USD/CAD and see no definitive reason to deviate from this position just yet.

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