AGF ASSET ALLOCATION COMMITTEE

Q2 2025

Quarterly Outlook and Model Portfolio Allocations

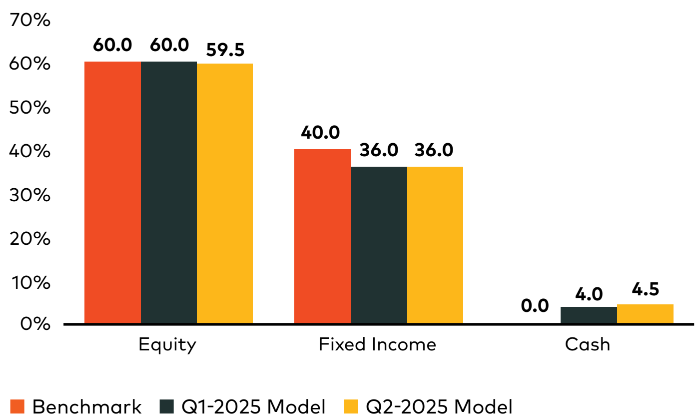
Asset Allocation

The AGF Asset Allocation Committee (AAC) maintained equites at neutral, fixed income at underweight and cash at overweight for the upcoming quarter. New U.S. policies could initially slow global economic growth and increase inflation, which could be offset later by more accommodative monetary policies and fiscal stimulus in some countries.

While inflation trended down over the last year, the first quarter witnessed sticky U.S. inflation amid continued economic growth, as momentum from the previous quarters carried through. Developed market central banks continued to monitor inflation levels and selectively implement rate cuts as economic growth varied by geographic region. U.S. equity volatility spiked during the quarter as the U.S. administration's focus on tariffs began to weigh more heavily on the forward path of interest rates and economic growth.

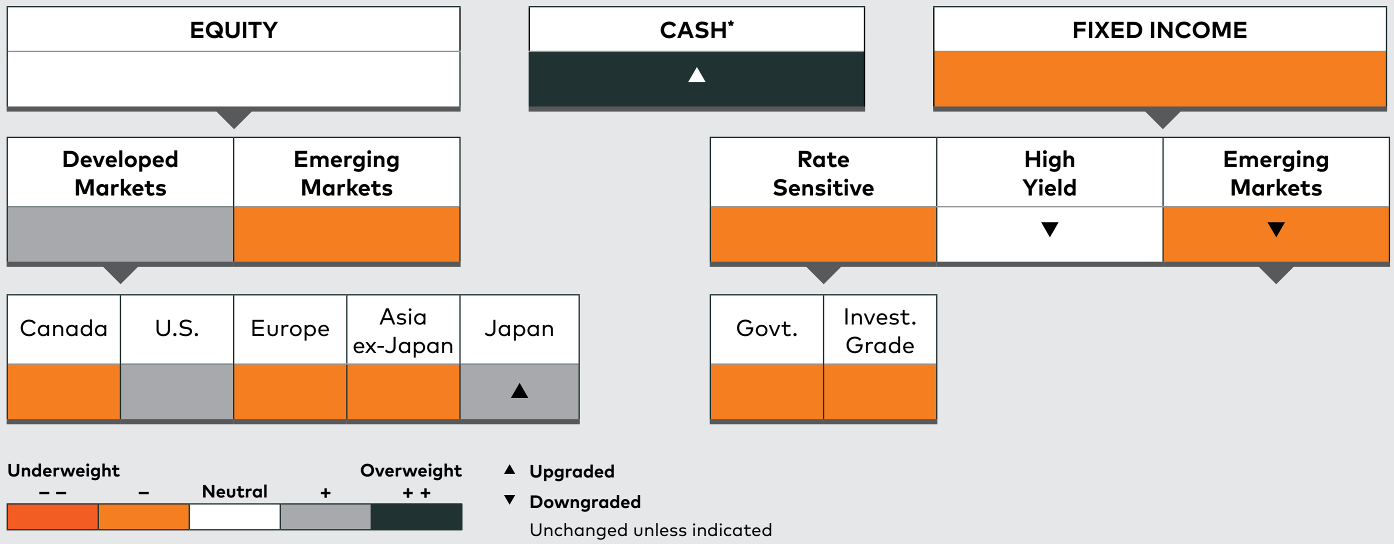
The AAC's neutral outlook for equities was maintained with the allocation slightly lowered to 59.5%, with assets moved to cash. The AAC also maintained its underweight to fixed income and reduced credit exposure, with Emerging Market (EM) bonds downgraded to underweight and high-yield bonds downgraded to neutral. Conversely, the allocation to Canadian and global investment grade bonds was slightly increased. The AAC's allocation to cash was increased to 4.5% and acts as a hedge against volatility and a funding source for future opportunities. The AAC remains open to the use of alternatives in portfolios. Alternatives can enhance diversification and improve risk-return profiles.

FIGURE 1: Asset Allocations



Source: AGF Asset Allocation Committee March 31, 2025. One cannot invest directly in an index. Benchmark: 10% Bloomberg Canada Aggregate Bond Index / 25% Bloomberg Global Aggregate Bond Index / 2.5% Bank of America/Merrill Lynch U.S. High Yield Master II Total Return Index / 2.5% JPMorgan EMBI Global Total Return Index / 16.5% S&P/TSX Capped Composite Total Return Index / 24.2% S&P 500 Total Return Index / 9.3% MSCI Europe Index / 3.5% MSCI Japan Index / 1.7% MSCI Pacific ex-Japan Index / 4.8% MSCI Emerging Markets Index.

Q2-2025 Market Outlook – Portfolio Applications



* neutral weight at 0%

Source: AGF Asset Allocation Committee, March 31, 2025.

Equity

- Equities were maintained at neutral as new U.S. policies could initially slow global economic growth. This is partially offset by U.S. monetary policy potentially becoming more accommodative
- Developed markets (DM) remain overweight, and Emerging markets (EM) were maintained at underweight
- U.S. equity markets remain volatile, but are supported by a solid, albeit weakening consumer, and the potential for deregulation. After strong performance in 2024, U.S. equity markets may need to digest government policy uncertainty and the potential for tariff retaliation from global partners
- Canada's economy remains vulnerable to poor housing affordability, an indebted consumer and U.S. policy changes. This is somewhat countered by more accommodative shifts in monetary policies relative to other developed countries and the potential for more fiscal stimulus after the election
- Europe continues to be impacted by geopolitical tensions with the war in Ukraine, but the prospects of a ceasefire have contributed to hope among some. Recent policy changes from the U.S. have spurred rearming and infrastructure spending initiatives in Europe, contributing to more upbeat growth expectations, somewhat offsetting potential tariff impacts
- Lackluster global growth may continue to impact Asia Pacific (ex-Japan) markets, which is partially offset by the potential for additional stimulus from China
- Japan's inflation rate remains elevated versus history, but economic forecasts still point to growth, supporting Japan's divergent monetary policy. While the low yen supports export growth, should the currency appreciate, global growth slow or tariffs arise, Japan's export-heavy economy would be challenged

Fixed Income

- Progress on inflation witnessed geographical divergences but remained slow to fall towards central banks' targets, tempering the outlook for global bonds
- Slowing growth projections in the U.S. raise the probability of further rate cuts over the next 12 months, while Canadian yields have less room to fall
- U.S. credit spreads remain below historical levels, moderating the outlook for U.S. high yield bonds, which were downgraded to neutral
- Emerging market bonds offer higher yields and diversification, yet are susceptible to growth slowdowns, currency fluctuations and U.S. trade policy changes, leading to a reduction

Cash

- Cash remains overweight and was increased slightly, as it continues to provide a cushion to soften the impact of volatility. Cash yields are lower as policy rates have moved lower, but still provide a reasonable return with low risk, as well as optionality for future investment opportunities

Equity Allocation

The AAC's outlook for equities remains neutral with DM preferred to EM. EM equities remain underweight on tariff and growth concerns, as well as disinflationary pressures in China which recent stimulus has yet to improve.

The AAC maintained its overweight outlook for U.S. equities but reduced the allocation by one percentage point to 25%, now only 80 basis points (bps) above neutral. Slowing growth, above-average valuations, and the potential for market negative policies moderate the outlook.

With inflation pressures easing and softness in economic indicators, the U.S. Federal Reserve (Fed) maintained its target rate during the first quarter. Uncertainty surrounding tariff policies creates near-term headwinds for the U.S. market to balance against the prospect of pro-growth policies being enacted by the U.S. administration later in 2025. While Fed officials continue to show support for interest rate cuts this year, tariffs will keep the Fed data dependent.

Japan's core inflation trended up during the quarter, while growth moderated with Q4 2024 GDP below consensus estimates and 2025 GDP growth estimates flat at 1.2%. The risk of tariffs and weak domestic consumption may weigh on equities, while the Japanese yen may benefit from supportive Bank of Japan monetary policy. As a result of the above factors, relative opportunities and diversification, the AAC upgraded Japanese equities to overweight and added 50 bps to the allocation.

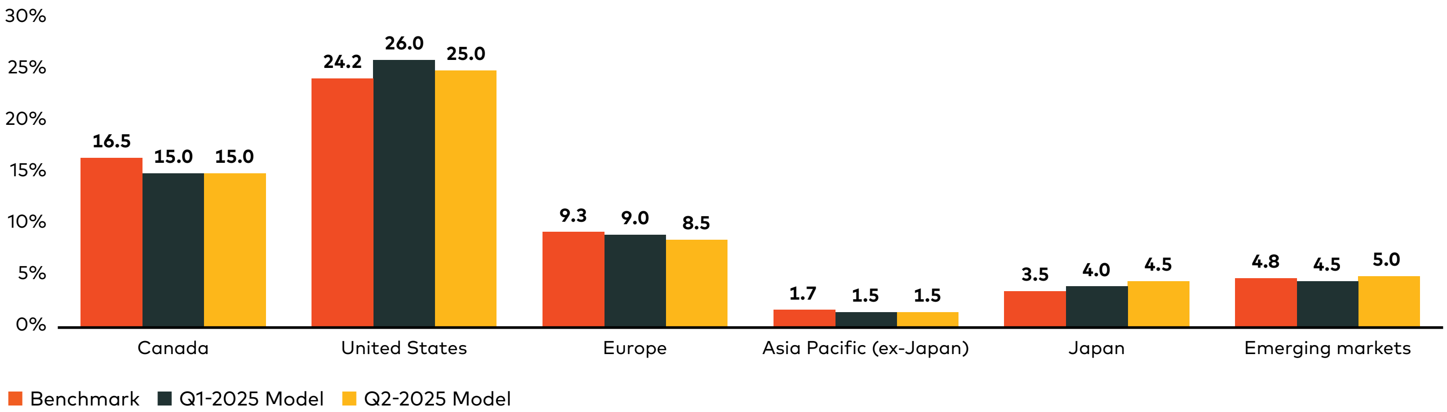
The S&P/TSX Composite Index outperformed the MSCI World Index over the quarter. Nevertheless, the AAC maintained its underweight position in Canadian equities, as tariff negotiations and an election loom. Canadian Gross Domestic Product (GDP) started to track below the Bank of Canada's (BoC) projections but leveled out as tariff uncertainty increased. Inflation was slightly above the BoC's 2% target in January. The BoC delivered two additional rate cuts during the quarter, aiding rate-sensitive sectors such as Financials, Real Estate, and Utilities. The Energy sector continued to lag over the quarter despite continued tension in the Middle East, as the threat of tariffs on energy exports, elevated Organization of the Petroleum Exporting Countries (OPEC) supply and weaker demand weighed on oil prices.

The AAC's outlook for European equities remains underweight and was slightly reduced from the previous quarter. European equities received a boost at the start of the year on proposed defense and infrastructure spending. In addition, the European Central Bank (ECB) continued delivering on interest rate reductions, with two cuts in the first quarter and more expected throughout 2025. European valuations are now more in-line with historical levels, with forward price-to-earnings ratios around 15. Nonetheless, sentiment is heavily influenced by external factors, including the U.S. administration, as well as internal political turmoil within the European Union. The AAC decreased its position in Europe by 50 bps while remaining underweight to the benchmark as sentiment remains cautious.

The AAC also maintained its underweight position in Asia Pacific markets (ex-Japan). Overall, the Asia Pacific equity market presents a mixed outlook. Hong Kong and Singapore remain attractive jurisdictions on valuation, although rising U.S. trade tensions pose a risk. Conversely, Australian equities are relatively more expensive while offering upside to commodity prices.

The outlook for EM equities remains underweight as DM equities are preferred, albeit less so than the previous quarter, resulting in 50 bps increase to the EM allocation. Relative valuations and supportive monetary policy present opportunities that are weighed against tariff and currency risk. India stands to potentially benefit from deglobalization, and fund flows redirected from China, but there are concerns about the political coalition's strategy. South Korea was recently roiled by an unlawful martial law and now an ongoing impeachment process. Overall, concerns about the impacts of tariffs increase risks in most countries.

FIGURE 2: Equity Allocations



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Fixed Income Allocation

The AAC maintained an underweight position in fixed income and adjusted the underlying allocations within the asset class. Slowing global economic growth expectations are weighed against rising consumer inflation expectations and complicated by uncertain tariff negotiations as well as the impact of high/rising deficits on U.S. government bond supply. U.S. Treasury yields moved lower on softening economic data, while the Fed held its target rate steady during the first quarter.

The risk of a recession has increased in many countries, and the AAC believes that the robust growth the U.S. has experienced is slowing and may result in further interest rate cuts in 2025. As a result, the AAC modestly increased the allocation to global rate sensitive bonds while maintaining an underweight outlook.

Credit spreads started to climb in March, making U.S. bond yields more attractive, but also reflecting market concerns about the impact of tariffs on corporate cash flows and potential defaults. With this backdrop in mind, the AAC's allocation to U.S. high-yield bonds was reduced to neutral.

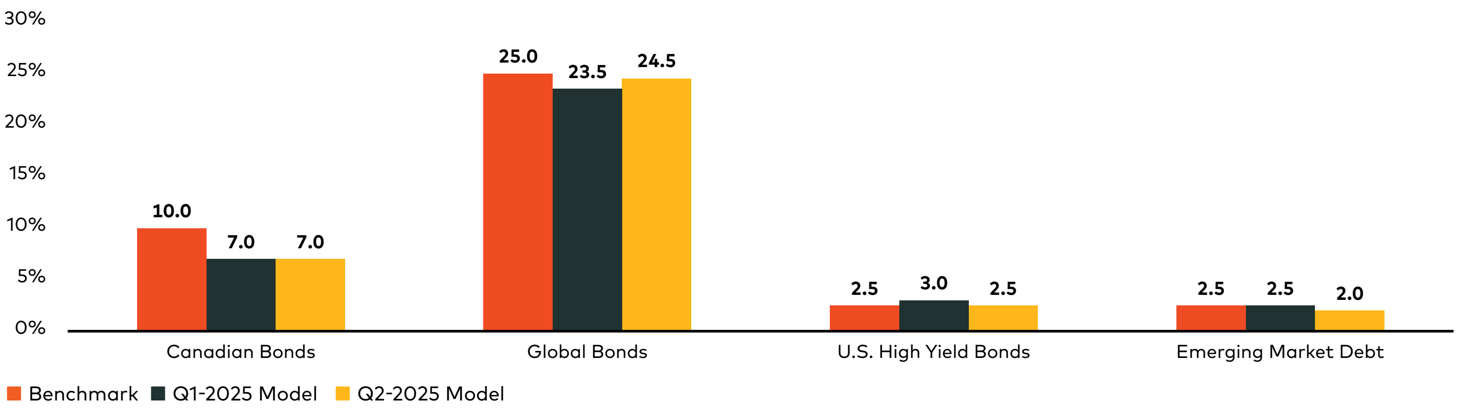
Global bonds generated positive returns in the first quarter, as U.S. Treasury yields continued to move lower on growth concerns. However, European bonds experienced a bout of volatility towards the end of the quarter, on a surprise stimulus announcement from Germany. Rate-sensitive categories outperformed credit-sensitive categories over the quarter. Trade tensions stemming from U.S. policies caused volatility in local yields and currencies, as global markets grappled with the potential for more uncertainty. Inflation in Europe continued to soften, leading to two rate cuts from the ECB. The AAC increased the allocation to global bonds by 100 bps, while still maintaining a slight underweight position.

The AAC remains underweight Canadian government bonds owing to unfavourable yield curve characteristics, elevated pessimism regarding economic growth prospects, and the availability of higher yields in other jurisdictions. At the same time, rate cuts from the BoC might outpace other central banks this year, tempering the underweight view.

EM bond spreads widened a little over the first quarter creating a headwind for performance. This widening was partially offset by falling U.S. Treasury yields, resulting in reasonable performance from EM bonds. The AAC expects a modest decline in EM bond yields in 2025, aided by improvements in global inflation and the prospect of further rate cuts in developed markets. Still, the outlook for EM bonds moved from neutral to underweight with the allocation reduced by 50 bps, reflecting concerns regarding the impact of tariffs.

The AAC increased its cash position to 4.5%, maintaining its overweight outlook, as cash continues to provide a cushion in the portfolio and lowers volatility. Cash rates remain attractive, particularly in the U.S. where the Fed has cut rates less than other central banks, although the AAC expects the relative attractiveness to decrease in tandem with incoming rate cuts.

FIGURE 3: Fixed Income Allocations



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Q1 2025 Economic Recap

The first quarter of 2025 delivered continued political turmoil in both developed and emerging markets, and increased U.S. market volatility. U.S. economic growth moderated and projections continued to trend lower. Headline risks attributed to protectionist trade policies, along with efforts to reduce the overall debt burden of the U.S. Government through the Department of Government Efficiency (DOGE) initiative, remained throughout the quarter.

Financial conditions were favourable for most of the first quarter despite a modest tightening in credit spreads, as U.S. Treasury yields moved lower on economic growth concerns. The U.S. 10-year Treasury yield started the quarter at 4.6% and rose to a quarter high of 4.8% in January, but ultimately ended the quarter at 4.2% as the potential impacts of tariffs began to weigh on economic growth expectations.

U.S. Real GDP, which measures GDP less inflation, was expected by the median economist to grow at an annualized rate of 1.2% in the first quarter of the year, signalling a deceleration in growth from Q4 2024. Furthermore, real time estimates suggest U.S. Real GDP growth could be lower driven by negative growth in net exports, as businesses attempted to build inventories ahead of tariffs.

U.S. consumer confidence, as estimated by the Conference Board, continued to trend lower over the last four months due to tariff policies. Meanwhile, the U.S. unemployment rate remained relatively stable over the quarter, hovering between 4.0% and 4.1% in January and February, and virtually unchanged since May 2024.

The Fed unanimously voted to maintain the Fed Funds Target Rate at 4.5% over the quarter, citing uncertainty around the economic outlook, particularly as it relates to the impacts of tariffs. The Consumer Price Index (CPI) year-over-year (YoY) in January reached 3%, above the consensus estimate of 2.9%, and the highest rate since July 2024. February saw a welcome decrease as inflation rose at less than half of the monthly gain in January. CPI YoY came in at 2.8%, under the 2.9% forecast, and was driven lower by transportation services. Still, the Fed raised its core inflation projections for 2025 from 2.5% to 2.8%, citing tariff concerns.

The Canadian economy grew at a 2.6% annualized rate in the fourth quarter of 2024, higher than the Bank of Canada's (BoC) expectation of 1.7% growth. Household consumption grew 1.4% in Q4, the fastest rate in over two years, driven higher by the HST holiday as well as spending on new vehicles along with financial and telecommunication services. Government expenditures contributed a much smaller amount than in previous quarters, while exports provided a boost to economic growth as businesses rushed to build inventories ahead of tariffs. However, residential construction and spending on alterations and improvements decreased, contracting by 1.1% and 4.7% respectively. The first quarter of 2025 started strong, with Canadian GDP growing at 0.4% month-over-month (MoM) in January; however, preliminary numbers for February suggest flat growth, with the potential for further declaration with tariffs. The unemployment rate remained unchanged at 6.6% in February, after decreasing 0.2% and 0.1% in December and January, respectively.

The BoC lowered interest rates by a collective 50 bps to 2.75% over the quarter and indicated that the tariff uncertainty was one of the deciding factors for their decision at the March meeting. However, the BoC signalled that given the potential impact of tariffs on inflation and inflation expectations, the need for further rate cuts could be diminished at future meetings, signalling a more hawkish tone. Further decisions will be made on a meeting-by-meeting basis, as the BoC will be looking for evidence of past rate cuts working their way through the economy, and the impacts of tariffs on the broader economy.

The Canadian Dollar (CAD) was nearly flat against the U.S. Dollar (USD) over the first quarter, as worries about U.S. economic growth and the potential for a more dovish Fed weighed on the USD versus most other countries. In Canada, moderate GDP growth at the beginning of the quarter and more hawkish messaging from the Bank of Canada provided relative support to the CAD. However, the Canadian Dollar's performance against other major currencies, including the Euro (EUR) and Japanese Yen (JPY) was negative, as early tariff announcements were focused on Canada.

During the first quarter of 2025, Canada's CPI (YoY) remained near the BoC's 2% target, dropping to 1.9% in January on the back of the GST and HST federal tax break. With the expiry of the tax break on February 15, the CPI (YoY) rose to 2.6% in February, marking a notable increase from the previous month. Adjusting for tax-break effects, price growth was broad-based in February. Recreation, Education, Healthcare and Food were some of the main drivers of price increases.

Japan's core inflation continued to accelerate in January, reaching 3.2% before falling to 3.0% in February, while remaining above the Bank of Japan's (BoJ) 2% target for over two years, and raising expectations of a near-term rate hike in 2025. The BoJ increased its policy rate by 25 bps to 0.5% in January and maintained the rate at the March meeting. The Japanese Yen displayed relative strength against the USD over the quarter, supported by the potential for relatively higher policy rates.

Meanwhile, the European Central Bank (ECB) cut its key interest rate by 25 bps at each of its meetings in January and March, bringing the policy rate to 2.65%. Inflation rates in the Euro Area moderated over the quarter, reaching 2.2% in March from a high of 2.5% in January, primarily driven down by services inflation. Core inflation dropped to 2.4% in March after stabilizing around 2.7% since August 2024. Hence, the policy rate of 2.65 % remains restrictive, and when coupled with consensus projected growth of only 0.9% for 2025 and the potential impact of tariffs, policymakers may have room to reduce rates further in 2025.

China posted economic growth of 5.4% for the fourth quarter, ahead of the government's target of around 5%. Manufacturing growth rose by 6.2% in Q4, while the service sector also grew by 5.8% in Q4, lifted by financials and IT services. Retail sales were mixed throughout most of 2024, but finished the year strong, with overall consumption increasing by 3.8% in Q4.

EM equities sold off at the start of the year but ended the quarter in positive territory. Weighing on returns were the possibility of tariffs in 2025, and political upheaval in South Korea and Turkey. India has been a beneficiary of deglobalization and fund flows from China. Within fixed income, EM bond indices were positive, with local bonds outperforming external bonds and corporate bonds. EM currencies were broadly positive over the quarter, with notable underperformance coming from the Taiwan Dollar and Indonesia Rupee, while the Russian Ruble and Brazilian Real were among the best performing.

The AAC remains vigilant about the risk of a resurgence in inflation, as the threat of tariffs from the new U.S. administration could disrupt the progress made thus far. In addition, the significant market rally in 2024 may lead to more muted returns in the year ahead, as the market grapples with a political shift in Washington and more protectionist policies. Recent inflation data in the U.S. was mixed, prompting the Fed to remain on the sidelines since December. However, slowing economic growth and potential for tariff-driven inflation in 2025 have conflicting impacts on the future path of rate cuts. With the rate-cutting cycle well underway in most developed nations, the path forward will be influenced by the extent of tariff disruptions.

AGF Asset Allocation Committee

The AGF Asset Allocation Committee is comprised of experienced investment professionals, specializing in various areas of the global bond and equity markets. Members provide insight into risks and opportunities, shaping the outlook of their respective asset class, which leads to an optimized asset allocation view. This top-down view guides the allocation decisions for certain AGF portfolios. Positioning described herein may not apply to all products or services offered by AGF.

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