AGF ASSET ALLOCATION COMMITTEE

Q2 2022

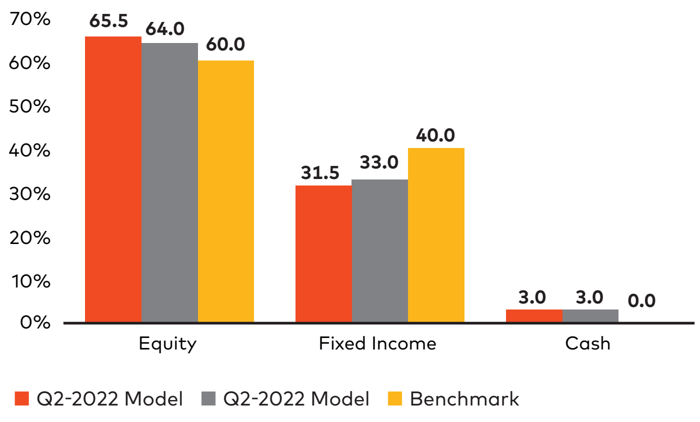
Quarterly outlook and model portfolio allocations

Asset allocation

The AGF Asset Allocation Committee favours equities over fixed income as the economic cycle continues to grind ahead despite near-term hurdles, including elevated inflation, tighter monetary policy, early signs of moderating growth and geopolitical uncertainty. The impact of the rate hiking cycle may cause heightened volatility and slower growth relative to prior quarters as higher rates pass through the economy.

The AAC's overweight to equities is slightly reduced to 64% with assets directed to fixed income slightly increased to 33%. The underweight to fixed income remains in place, however, as the asset class is impacted by rate hikes. The AAC's small allocation to cash is utilized to soften the impact of volatility and provides funds as opportunities arise.

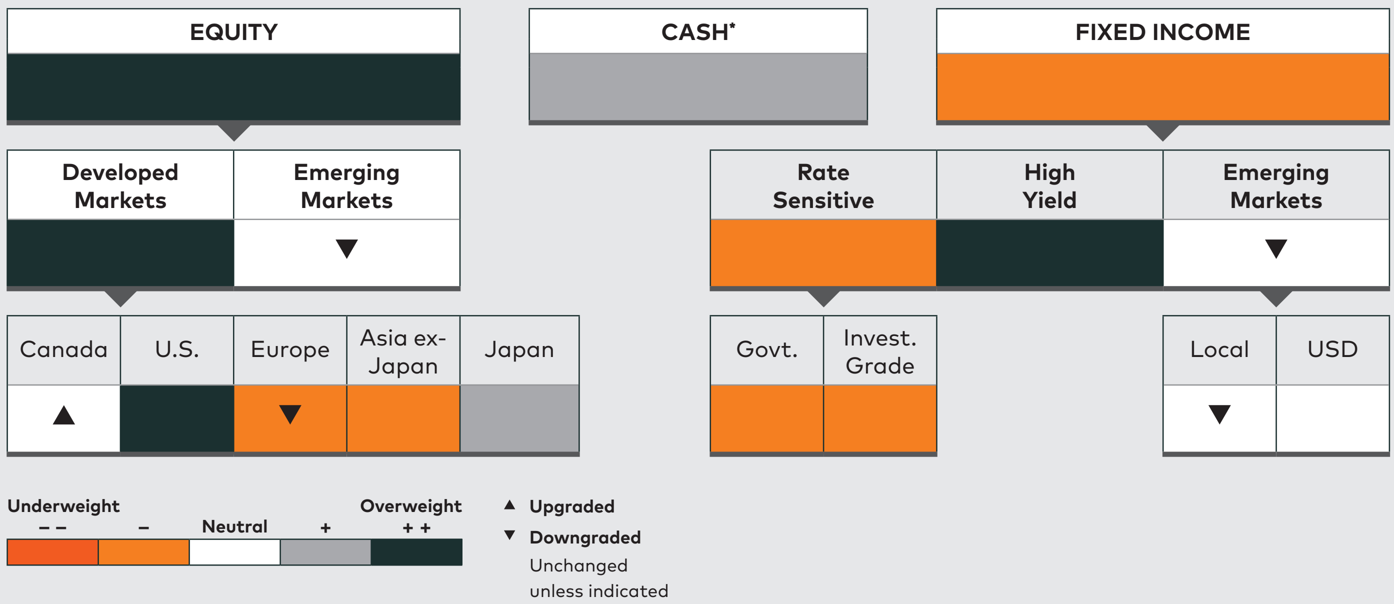
FIGURE 1: Asset allocations



Source: AGF Asset Allocation Committee, April 2022.

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 / 3.5% MSCI Japan / 1.7% MSCI Pacific ex-Japan / 4.8% MSCI Emerging Markets

Q2-2022 market outlook – portfolio applications



* neutral weight at 0%

Equity

- Improvements in supply chain issues and COVID concerns could support equity growth
- Developed markets are preferred, though prospects for emerging markets are also constructive
- Higher commodity prices support Canada, given its robust energy and materials sectors
- U.S. markets are adjusting for policy measures, but corporate earnings and a resilient consumer continue to support the market
- Europe is well positioned with its value-tilted markets, recent underperformance, and relatively accommodative central bank. However, geopolitical uncertainty, high inflation readings and falling confidence should begin to impact growth expectations
- Shipping bottlenecks and a slowing China will continue to impact Asia Pacific Markets (ex-Japan) in the near term
- Japan tends to excel during rising rate environments and valuations are relatively attractive, though government policies and rising fuel costs could weigh on performance

Fixed Income

- Central bank activity will continue to impact rate-sensitive bonds; however, a significant amount of tightening was priced into the market during the quarter
- Longer duration investment-grade corporate bonds are sensitive to rising yields
- The economic backdrop remains supportive for 'coupon clipping' in high yield bonds
- Emerging markets offer higher yields but are susceptible to a global growth slowdown and persistent inflation

Cash

- A moderate allocation to cash softens the impact of volatility and provides liquidity should tactical opportunities arise

Equity allocation

The Committee's overweight to equities is trimmed as high inflation is leading central banks around the world to withdraw monetary support. Nevertheless, a backdrop of easing supply chain issues in some countries and COVID-related setbacks could be supportive of market growth. Policy error poses a key risk, however, as equity markets have begun to price in more restrictive measures. The U.S. Federal Reserve's (Fed) projected pace of tightening has increased in recent months and will impact economies with lagged effects.

The Ukraine conflict has placed considerable upward pressure on commodity prices in turn leading to higher inflation. Energy prices have surged which is beginning to impact consumer spending and company profitability. Moreover, food prices have also moved higher, disproportionately impacting lower income consumers and developing nations. Higher food prices in turn increase the risk of social unrest in many parts of the world.

Equity market strength also hinges on the fight against COVID-19. While many countries have managed to shrug off Omicron cases, strict containment measures in China could delay supply chain resolution. Meanwhile, the U.S. and others are witnessing a partial hand-off from goods to services. Measures of mobility and employment, for example, are witnessing a further shift from the manufacturing economy to the services economy, as pent-up demand for experiences is unleashed.

With less dependency on positive COVID progress and inflation sensitivity, developed markets (DM) are preferred over emerging markets (EM) though the prospects for both are positive for the upcoming quarter. Further easing of supply chain issues and more broad economic reopening would be supportive of developed markets. However, DM's face the economic impacts of a rate hiking cycle, which is a journey several EM's embarked on quarters ago.

Canada's Energy and Materials sectors benefit from higher commodities prices, and the global reopening trade and concerns over supply should be supportive of performance. The Committee has again added to Canadian equities, brining the country to a neutral level relative to other developed markets. Nevertheless, the view on Canada is tempered given strong recent performance relative to other markets and the size of the financial sector.

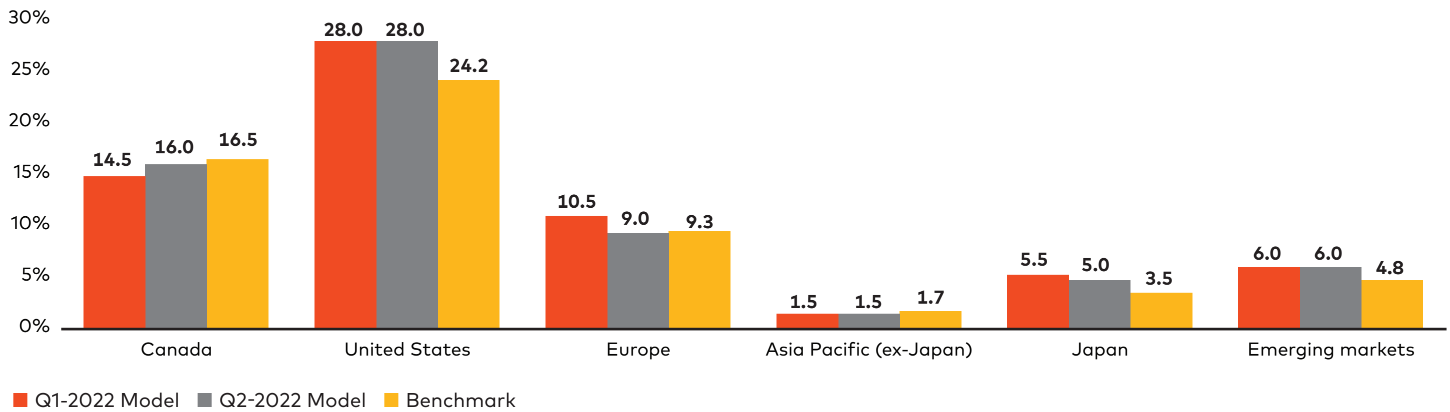
U.S. equity markets are adjusting for policy-restricted growth after several quarters of policy-supported growth. Moreover, many companies are adjusting to higher rates as well as higher input costs which is pressuring margins. Nevertheless, the committee expects positive earnings, adequate liquidity and company buybacks could balance actions from the Fed. Moreover, many state and local governments, consumers and companies are flush with cash which will support growth moving forward. As a result, the U.S. continues to be among the most favoured markets.

Europe benefits from its value-tilted markets and a central bank that has remained more accommodative among developed economies. Nevertheless, the Committee's overweight is reduced to an underweight as performance in Europe is more dependent on the health of the global trade, and rampant inflation is impacting company margins and consumer confidence. Further, geopolitical uncertainty is heightened along with associated concerns over prolonged high energy prices and vulnerable supplies.

Shipping bottlenecks related to widespread lockdowns in China will continue to impact the short-term outlook for Asia Pacific markets (ex-Japan). Although the earnings outlook is still reasonable and countries such as Australia and Singapore are well positioned for the economic backdrop, the overall region's underweight position is unchanged as greater near-term opportunities are found in other developed markets.

Japanese equities have excelled during rising rate cycles historically and valuations are relatively attractive. In addition, the Bank of Japan is expected to provide more support versus other central banks as inflation is less evident. The Committee's favourable view is tempered by the state of Japan's government, however, as it is unclear how long Kishida will retain influence and the multiplier effect of fiscal spending is expected to be low. In addition, business confidence is questionable as supply chain disruptions may remain and the Japanese economy is geared to global trade.

FIGURE 2: Equity allocations



Source: AGF Asset Allocation Committee, April 2022.

Benchmark: 16.5% S&P/TSX Capped Composite Total Return Index / 24.2% S&P 500 Total Return Index / 9.3% MSCI Europe / 3.5% MSCI Japan / 1.7% MSCI Pacific ex-Japan / 4.8% MSCI Emerging Markets

Fixed income allocation

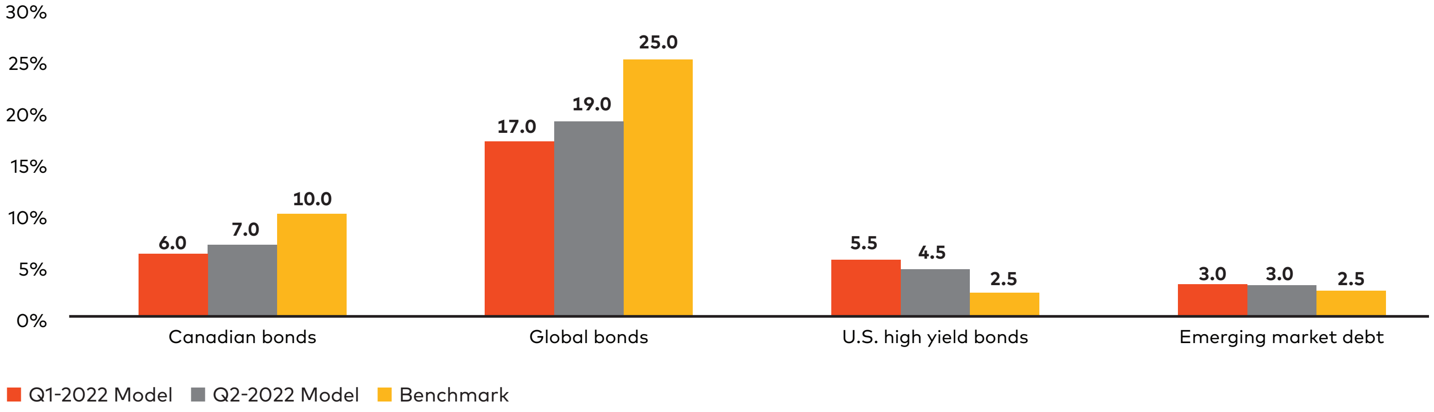
Allocation to fixed income is slightly increased but the Committee's underweight position remains in place. The asset class will likely be defined by central bank activity and the fight to calm inflationary issues in 2022. A well-telegraphed path towards interest rate targets could soften damage to government bond markets. Moreover, higher yields in the short end have already been priced in leading to a curve flattening, which may begin to reverse course. If company fundamentals remain constructive and elevated volatility dissipates, high yield bonds offer upside potential. Emerging markets offer more attractive yields than developed markets, however a slower pace of economic growth combined with more aggressive monetary tightening could pose a challenging backdrop in the upcoming quarter.

The Committee has slightly added to Canadian and global sovereign bonds as aggressive central bank measures have already been significantly priced into the market and inflation projections may begin to soften. However, rate-sensitive categories are meaningfully underweight relative to the benchmark index as persistent inflation could result in further negative price action. With projections from the Fed and others trailing market expectations, risk of a policy misstep is heightened.

The allocation to U.S. high yield bonds is modestly reduced, however the category remains most favoured relative to other fixed income assets. Slower economic growth may temper returns, but current levels remain supportive and elevated volatility appears to be dissipating. This backdrop should produce rangebound credit spreads and extend the 'coupon clipping' market for high yield bonds. Investment grade corporate bonds may experience similar conditions, however the category's longer duration nature results in greater sensitivity to the move in rates.

The Committee's view towards emerging market bonds is neutral. These countries offer higher yields relative to developed markets, however the category is more sensitive to a slowdown in global growth. Persistent inflation may also warrant further central bank intervention. In addition, a hawkish Fed and U.S. dollar strength present further headwinds to EM debt. External-denominated EM debt is slightly better positioned than local-denominated EM debt, in our view.

FIGURE 3: Fixed Income allocations



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Q1 2022 economic recap

The first quarter of 2022 saw increased volatility and a downturn in markets as the world grappled with the conflict between Russia and Ukraine, higher inflation, and the ramifications on interest rates and economic growth.

The invasion of Ukraine generated a supply driven shock to many key commodities including energy, fertilizer, and food prices, which reverberated throughout global markets. The U.S. benchmark oil price moved up from $73 USD a barrel to $99, pushing gasoline higher and leading to concerns over consumer demand destruction. In Europe, the price of natural gas burst higher, creating headwinds for industrial companies in countries such as Germany.

Neither geopolitical uncertainty nor COVID-19 concerns managed to materially alter the course of central banks in their plans to raise interest rates moving forward. Thirteen EM central banks raised policy rates during the quarter. The U.S. Federal Reserve Board (Fed) and other central banks turned more hawkish to fight inflationary pressures, which drove bond yields higher. Inflation was broad-based across countries and components, with global headline inflation increasing 5.1% and core inflation rising 3.6% year-over-year, both at two-decade highs. Meanwhile U.S. consumer inflation reached 8.5% and the job market continued to recover with the unemployment rate declining to 3.8%, giving the Fed the green light to raise rates. Consequently, market participants increased their expectations of central bank rate hikes as the quarter progressed, increasingly pricing in the possibility of a series of 50bps hikes in May and June to start.

Canada's economic reopening proceeded and was given additional life as most commodities received a strong bid. Like the Fed, the Bank of Canada (BoC) adopted a less accommodative posture and began its hiking cycle. Economic data was supportive of this, as the unemployment rate improved to 5.8%, just shy of the pre-pandemic low. While lagging the U.S., inflation still increased to 6.7% providing further support for the BoC's decision.

Most European economies continued their gradual recovery in part with greater accommodative support relative to other developed market central banks. The resurgence of COVID-19 concerns and supply chain issues took a back seat to the war in the Ukraine. With a heavy reliance on Russian energy imports, Europe experienced a significant spike in both producer and consumer inflation as well as declines in sentiment.

While other advanced economies struggled with price pressures, Japan's inflation rate ended the quarter at 1.2% despite ultra-accommodative policy. Political uncertainty remained, however, with concerns of how

Prime Minister Kishida's populist-leaning policies may impact financial markets.

Emerging market equities modestly underperformed developed markets. The Europe Middle East Africa (EMEA) region significantly underperformed, weighed down by Russia, which was removed from MSCI on 9 March 2022. Hungary and Poland significantly underperformed, as did Egypt, which requested support from the IMF to support its struggling economy. However, oil-exporting countries in the Middle East outperformed due to rising energy prices. The Latin American region significantly outperformed, supported by export markets that benefited from rising commodity prices and increased market share diverted from Russia and Ukraine.

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 allocations for all funds managed by the Committee.

For more information on the AGF Asset Allocation Committee visit AGF.com.

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