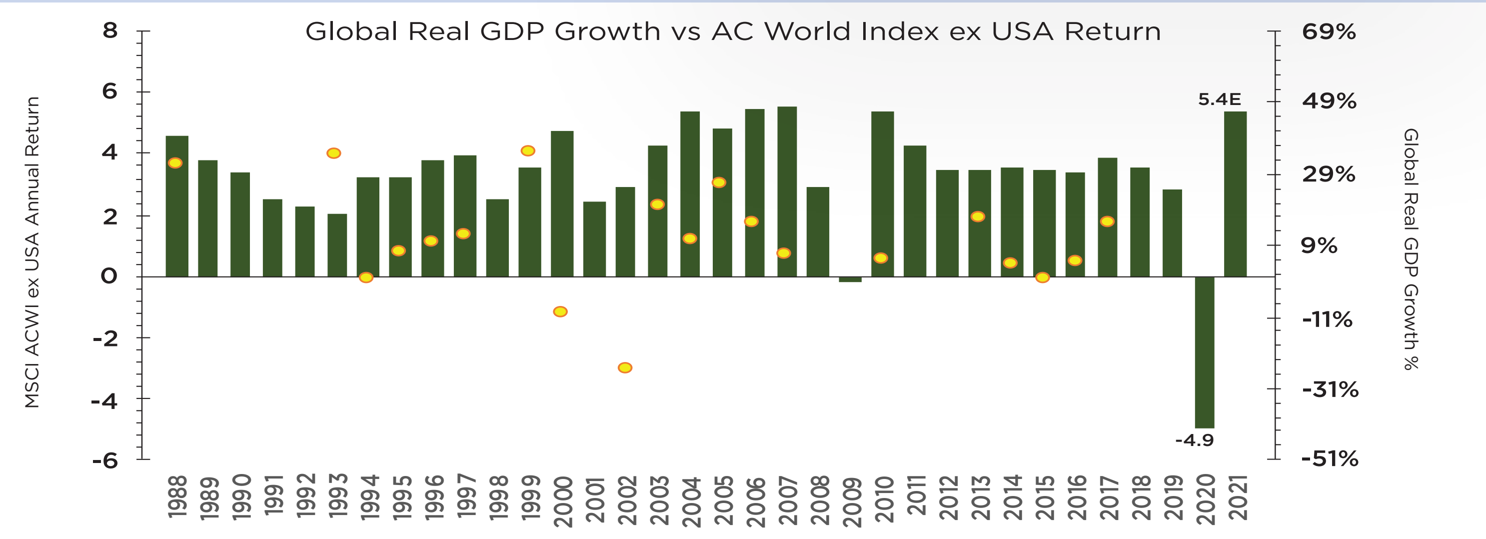
International equity markets have posted solid gains when global growth accelerated



Source: Morningstar, MSCI All-Country World Index ex. U.S. returns. Past performance is not a guaranteed of future performance.

International Outlook

The global economy is in the early stages of a rebound, though disparate conditions between major economic regions along with resurfacing pandemic challenges will likely make for a protracted recovery. Similar to North American conditions, we think monetary and fiscal policies will remain highly supportive, helping bridge the chasm created by the health care crisis. An enduring, though modest, expansion should, in turn, support positive global equity market performance ahead.

- **Uneven global recovery –** The overseas rebound is underway, but won't proceed in rapid or steady fashion. Resurgent COVID-19 cases in Europe pose a threat of renewed lockdowns while China's recovery is more advanced – as demonstrated by its potential to be the only major economy to post outright growth for 2020. In spite of reopening setbacks, threats to global trade activity and political instability, we think global growth will improve next year, aided significantly by continued sizable monetary and fiscal stimulus abroad. Coordination by EU policymakers to launch the euro recovery fund, aggressive stimulus from the world's major central banks and accommodative policies from Chinese authorities signal to us that global policymakers are committed to fostering a sustained recovery, though varying regional factors may produce a more uneven economic path than we experience in Canada or the U.S.

- **Currency help –** The loonie has been fairly rangebound against the greenback for the past several years. The C$ has gained some strength this year as oil prices rebounded and the Fed lowered rates, but we expect the loonie to remain in its recent range as we advance. South of the border, the U.S. dollar appreciated steadily in recent years as the American economy improved relative to the tepid European expansion and slowing rate of growth in China, along with the Fed's slow move away from extreme monetary policy settings. The pandemic-driven global recession has reset the deck and we think the strength of the U.S. dollar could abate. Improving global growth tends to be a tailwind for the loonie and a headwind for the greenback (the dollar is more of a safe-haven currency). Periods of global economic improvement and an accompanying flat-or-weaker U.S. dollar (early-to-mid-2000s, 2009, 2017) have been favorable for overseas market performance.

- **International performance following global slowdowns –** Global equities traditionally benefit from an improving global economy, posting an average annual gain of 9.5% in years in which world GDP accelerated from the prior year. As the global expansion gains footing over time, we think investment performance will broaden beyond the leadership so far in this rally. We think this warrants exposure to lagging areas such as global equities and cyclical assets/sectors, which have higher representation in foreign equity markets.

Action for Investors

We recommend an overweight allocation to international equities, with a larger exposures to U.S. large-caps and overseas developed markets (Europe, Japan) versus emerging markets.

Special risks are inherent to international investing, including those related to currency fluctuations and foreign political and economic events. Diversification does not ensure a profit or protect against loss in a declining market.

