

Target guidance by investment category

START HERE	Investment Category	Asset Class	Target Guidance in Range
Equity Investments	Aggressive ¹	Commodities & Emerging Markets	Middle
	Growth	Small- and Mid-cap Stocks (Canadian, U.S. and Overseas)	Middle
	Growth & Income	Canadian Large-cap Stocks, ² U.S. Large-cap Stocks, Overseas Large-cap Stocks & Real Estate	Middle
Fixed-income Investments	Income	Canadian Investment-grade Bonds, GICs, International Bonds, High-yield Bonds & International High-yield Bonds	Middle
	Cash	Cash & Money Market	Middle

¹ Alternative Investments and Stocks trading less than \$4 align with the aggressive investment category, but they are not recommended.

² Large-cap stocks that do not pay a dividend are in the Growth investment category.

Asset classes we don't recommend separately include alternative investments and micro-cap equities.

QUARTERLY MARKET OUTLOOK: FOURTH QUARTER 2020

Asset Class Outlook

We believe well-diversified portfolios should be built by first identifying a targeted mix of equity and fixed-income investments based on your goals and comfort with risk, and then gaining exposure to a broad mix of the asset classes highlighted below.

Equity Versus Fixed Income (Equity target = Middle) - We recommend a neutral allocation between equity and fixed income. While we think it'll take some time for the economy to fully recover, we expect the path forward to be positive, but choppy, and supported by renewed earnings growth. Interest rates may be low for a while longer, but an appropriate amount of fixed income and cash can enhance stability during periods of volatility.

Domestic Versus International (International target = High) - We expect a sustained economic rebound in Canada, but elevated consumer debt and reliance on an extended housing market boom represent headwinds relative to other developed markets. International equities can provide diversification to relatively high sector concentration in Canada, which includes sectors with sensitivity to commodity prices.

Asset Class Diversification

Aggressive (Target = Middle): We recommend a focus on emerging-market equities, which we think offer diversification benefits and exposure to secular tailwinds, such as favourable demographics. We remain cautious on commodity investments and don't think investors need additional exposure than that gained through Canadian equities.

Growth (Target = Middle): We recommend overweighting U.S. small- and mid-cap stocks and underweighting Canadian small- and mid-cap stocks, which we also believe can help diversify sector concentration within the Canadian economy.

Growth & Income (Target = Middle): We recommend overweighting overseas and U.S. large-cap equities based on the additional diversification value they can provide and the domestic economic recovery challenges stemming from elevated household debt levels. We expect the global recovery to broaden, supported by meaningful governmental policy actions, though pockets of coronavirus outbreaks may cause short-term setbacks along the way.

Income (Target = Middle): We recommend laddering bond portfolios as interest rates are likely to stay low for longer than previously expected while central banks provide monetary support. The aggressive-income target is high because we recommend overweighting Canadian and International high-yield bonds as interest rate spreads have risen to levels that have historically corresponded to positive forward relative returns versus investment-grade bonds. International high-yield bonds offer additional diversification benefits and stand to benefit from aggressive central bank support.

Cash (Target = Middle): Real cash returns are negative as the BoC provides extremely accommodative monetary policy, and it will likely do so for some time to continue to support the recovery. Cash can help provide stability, cover short-term expenses and provide a source for investment during pullbacks.

Investors should understand the risks involved in owning investments, including interest rate risk, credit risk and market risk. The value of investments fluctuates, and investors can lose some or all of their principal. The prices of small-cap, mid-cap and emerging-market stocks are generally more volatile than those of large company stocks. Special risks are inherent to international investing, including those related to currency fluctuations and foreign political and economic events.