Attachment 1

Investment Management Report for

ONE Investment - JIB Quarterly Commentaries

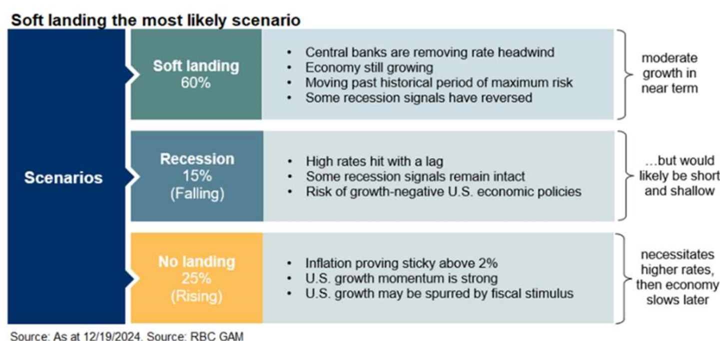
For Period Ending December 31, 2024

Macroeconomic and Capital Markets Commentary and Outlook

The following commentary summarizes meaningful trends and events that we've observed over the past quarter.

The performance of **global equity markets** was mixed in the fourth quarter, with the U.S., Canada, and Japan recording positive returns, while the U.K., Europe, China, and emerging markets declined. For markets that performed well, the gains came on the back of strong economic growth, improved earnings, and the U.S. Federal Reserve (Fed) slashing interest rates. The markets also benefitted from the ongoing momentum from the artificial intelligence trade, which continued to captivate investors.

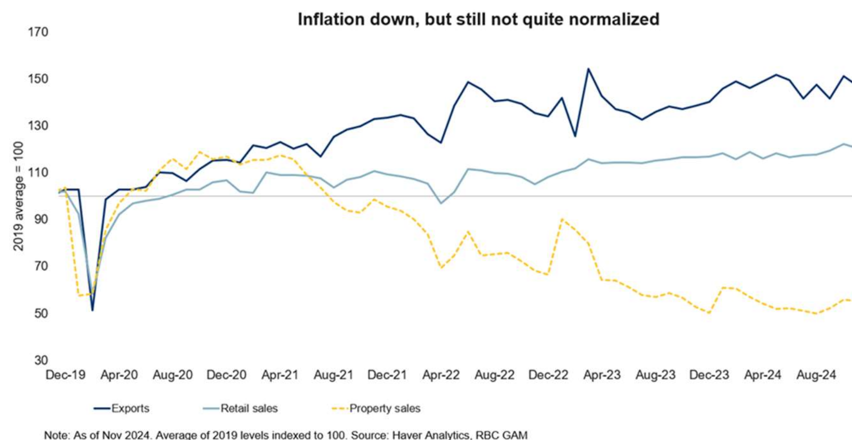
In terms of **economic activity**, the global economy has stabilized in recent months as inflation concerns moderated and headwinds created by higher borrowing costs faded amid interest rate cuts. A major event risk was also resolved in the form of the U.S. election. While uncertainty remains as to which of President-elect Donald Trump's proposed policies will be implemented, we assume that his proposed tariff and immigration policies will be significantly tempered, allowing for the effects of tax cuts, deregulation, and rising animal spirits to dominate, moderately boosting the near-term U.S. growth outlook. The risk of a recession appears to have declined further and we now assign a 60% probability to a soft landing for the U.S. economy. That said, our base case outlook is subject to a variety of risks, including uncertainty with respect to the new U.S. administration, interest rate policy and geopolitical instability reflected by events in Ukraine and the Middle East, as well as China's housing challenges.



U.S. economic growth remained strong, expanding at a healthy 3.1% annual pace from July through September, driven by robust consumer spending and an increase in exports. In the U.S. labour market, job growth surged in November, but this was an expected rebound after hurricanes and striking workers heavily distorted the October data. The unemployment rate ticked up to 4.2% in November from 4.1%, and a growing number of jobless Americans are taking longer to find employment, which reflects a pullback in hiring.

The **Canadian economy** appeared to lose strength toward the end of the year. The economy expanded a higher-than-expected 0.3% in October but shrank 0.1% in November (as per advance data), which was the first monthly contraction in 2024. Going ahead, declining interest rates should be particularly beneficial given the country's interest rate sensitivity, and an election in the new year could install a more growth-oriented government. A key development to watch will be the impact of anticipated reversals in population growth and productivity growth. Population growth is set to slow sharply due to tightening immigration rules after an unprecedented surge in recent years – a potential drag on economic growth. In contrast, productivity has been weak in recent years, in part due to outsized immigration rates. The demographic reversal should thus allow for some revival in productivity, but it is impossible to say whether productivity will normalize at the precise moment that immigration eases. As such, quarter-to-quarter growth across 2025 may be unusually choppy.

While **inflation** has declined meaningfully from its 2021/2022 heights, it isn't yet all the way back to normal and the downward path has been somewhat less consistent in recent months. The incoming Trump administration may introduce additional inflation pressures via tariffs and faster growth, which lead us to raise our U.S. inflation forecast for 2025 from 2.3% to 2.6%. This nevertheless leaves it a bit lower than the average rate in 2024, supported in part by a lagged decline in shelter inflation and in part by a less dovish Fed. The inflation challenges are less acute in other countries, and we have greater confidence in inflation continuing to converge upon target in most of those markets. Fundamentally, economies are less overheated than they were a few years ago, wage growth has moderated, and corporate pricing plans are less aggressive. As a result, inflation is likely to continue its downward trend.



Except for the Bank of Japan, all major developed world **central banks** have begun dialing back monetary restrictions, including the late-arriving Fed, which delivered an initial 50-basis-point cut in September followed by two further 25-basis-point rate cuts before the end of the year. Central banks are in position to ease further but perhaps with less intensity than has been delivered so far, with the Fed now projecting just two interest rate cuts for 2025, citing the low unemployment rate and "somewhat elevated" inflation. Other developed economies have lower neutral rates, meaning their policy rates are capable of descending into the 2%-3% range.

Several **global equity markets** posted gains over the three-month period, while others declined. The results of the U.S. presidential election sent U.S. stocks soaring in November, but the rally stalled in December after the Fed signalled a much slower pace of rate cuts in 2025. Nevertheless, the U.S market ultimately ended higher for the quarter, with the S&P 500 index posting a return of 8.9%. The rally was dominated by the same technology stocks that have driven the market higher for the better part of the last two years.

Equity Indices Performance Comparison as of Dec 31, 2024 (%)

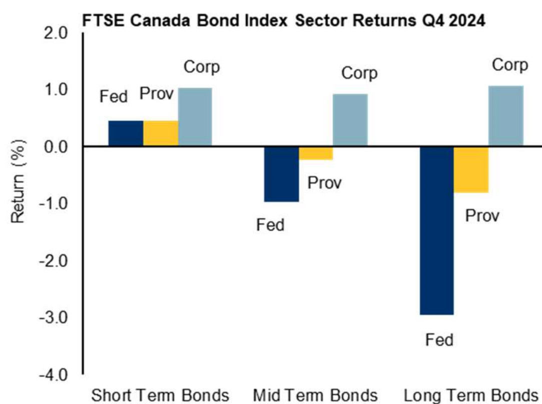
	3 Mo	1 Yr
S&P/TSX Composite Index (C$)	3.76%	21.65%
S&P 500 Index (C$)	8.85%	35.62%
MSCI World Net Index (C$)	6.29%	29.43%
MSCI EAFE Net Index ($C)	-2.18%	13.24%
MSCI Emerging Markets Net Index (C$)	-2.07%	17.26%

Source: RBC GAM

The **Canadian equity market** performed strongly in the fourth quarter and stocks established new record highs. The S&P/TSX Composite Index returned 3.8% over the period, with the Information Technology and Financials sectors emerging as the strongest performers. On the other hand, the Communication Services, Real Estate, and Materials sectors were among the weakest and posted negative returns.

In **emerging markets** (EM), the MSCI Emerging Markets Net Index posted negative returns during the quarter as its two largest country weights – China and India – both declined over the period. Chinese equities rallied on the back of policy announcements by China in September that appeared to convince markets that 2025 would finally see the significant stimulus required to restart the economy, but declined in the aftermath of the U.S. election and resulting strength in the USD against EM currencies. The Indian stock market continues to be one of our favourite long-term investments; however, economic indicators and earnings revisions have led to some weakness in the near term. Taiwan remains the standout EM performer due to its significant exposure to technology companies linked to artificial intelligence.

Global fixed income markets were muted during the fourth quarter amid sticky inflation and as the Fed adopted a more cautious tone on the pace of future rate cuts. In terms of the **Canadian fixed income market**, returns were relatively flat at -0.04%, while the yield of the FTSE Canada Universe Bond Index ended the fourth quarter at 3.6%, up 0.1% from where it began. This masks the volatility in yields over the quarter, which traded within a 0.5% band. Renewed resilience of the U.S. economy and increasing probability of a Trump victory pushed North American bond yields higher in the first half of the quarter. In the second half, yields declined in response to President-elect Trump's threat of a broad 25% tariff and the uncertainty surrounding the implications for the Canadian economy if implemented. Against the backdrop of a persistently soft Canadian economy and inflation around its 2% target, the BoC cut its overnight rate by 0.50% in its October and December meetings, to 3.25% at the end of the year.



Source: RBC GAM, FTSE Russell

Interest rates across the Government of Canada yield curve ultimately ended the quarter higher than where they began, with short-term yields increasing less than long-term yields. Compared to the period leading up to the pandemic, these higher levels improve the outlook for forward-looking returns from fixed income significantly. The bond market is currently reflecting a belief that Canada will avoid a recession. Our base view is roughly in line with the market, as we place a slightly higher probability that economic growth remains slow but avoids recession. That said, the risk of a recession remains present and a key factor. As a result, we continue to take a measured and cautious approach to portfolio positioning.