MARKET REVIEW & OUTLOOK

LifeWorks Investment Management Ltd.

QUARTERLY NEWSLETTER
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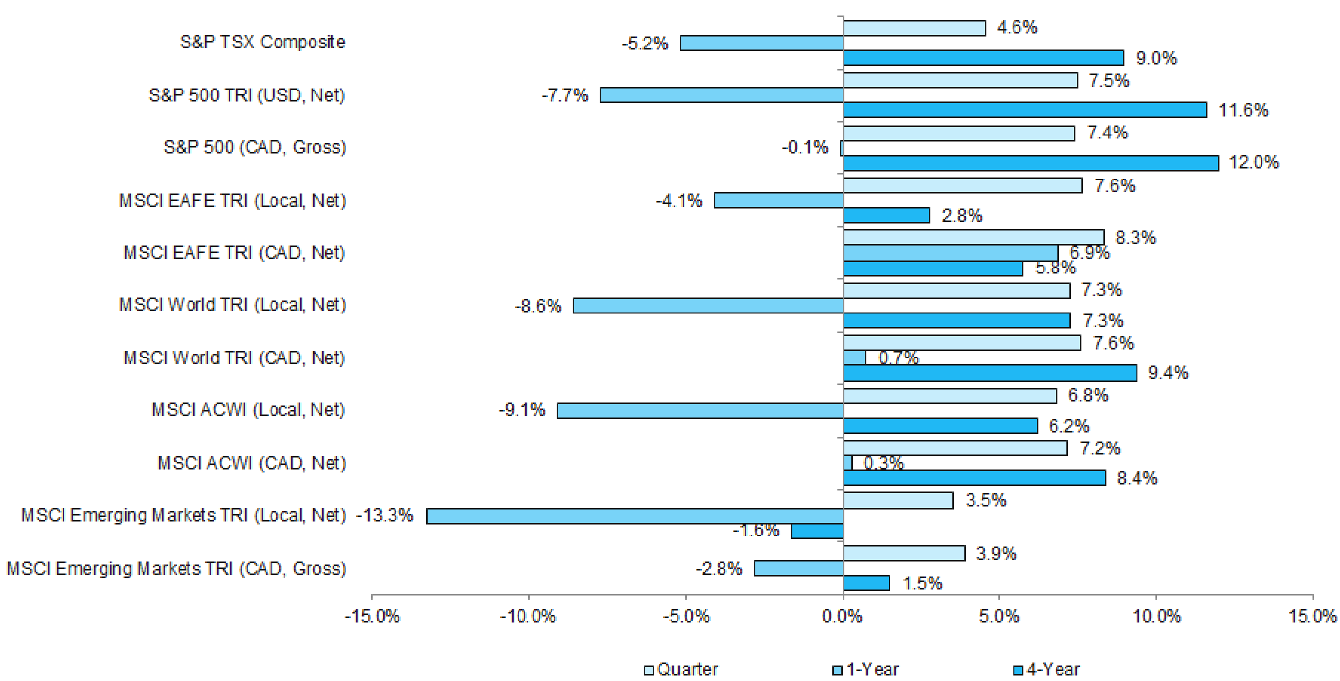
General Market Commentary

- While the first quarter of 2023 ended with most major global equity and fixed income markets in positive territory, underlying global macro factors and investor sentiment were mixed, especially since inflation, interest rates and major bank collapses were some of the headlines.
- Investors initially felt optimistic about inflation slowing and the end of tightening cycles, leading to rallies in equities and bond markets. However, the Bank of Canada and US Fed's rate increases reversed this sentiment and caused a global sell-off in February. In March, weak risk management systems in Silicon Valley Bank and Credit Suisse, amidst rising interest rates, led to their collapse. Regulators intervened quickly to minimize the contagion effect on the banking sector.
- During the first quarter, most equity sectors performed well across all major global indices. Energy and Financials sectors were the worst performers due to oil prices declining and stress surrounding the banking sector. Technology was the top performing sector in the first quarter.
- In terms of investment style, growth significantly outperformed value in the first quarter. Russell 1000 Growth Index (CAD) posted a return of 14.2%, whereas the Russell 1000 Value Index (CAD) posted a return of 0.9%.
- During the first quarter of 2023, global central banks continued their rate hikes in a synchronized manner albeit at a slower pace.
- Within fixed income markets, the government bond yield curve shifted lower across all maturities both in the US and in Canada with investors increasingly expecting a pivot in central bank monetary policies. Credit spreads widened with the Canadian Federal and Provincials sectors outperforming the corporate sector in the first quarter.

Global Equity Market Performance



Canadian Markets

- The S&P/TSX Composite Index underperformed most major equity markets, posting a return of 4.6% over the quarter. Resource-based Canadian economy was negatively impacted by declining energy and commodity prices, which were driven by a softening in manufacturing activities amidst a global economic slowdown.
- Most sectors posted positive returns except Energy, which returned -2.3%, and Financials, which returned 1.7%. The top-performing sector was Technology, returning 26.5%, led by Shopify, Constellation Software, and CGI. Larger capitalization names were favored as values declined in 2022. Energy was hurt by falling oil and gas prices, while the Financial sector was impacted by declines in Canadian bank stocks due to concerns about spillover effects from the U.S. regional banking crisis.
- Canadian GDP grew 3.4% in 2022, supported by a strong labor market and higher commodity prices. However, growth is expected to slow in 2023 due to high interest rates and inflation dampening consumer and business spending. CPI dropped to 5.2%, but the BoC raised its interest rate to 4.50% and plans to closely monitor inflation as it has not yet met its 2% yearly inflation target.
- The Canadian dollar appreciated marginally against the USD by 0.1%, but depreciated against other major currencies, which resulted in higher foreign returns in Canadian dollars for unhedged investors.

US Markets

- The S&P 500 Index delivered a solid return of 7.4% over the quarter, outperforming most major global equity markets. Despite initial concerns about inflation, investor optimism and hopes that the Federal Reserve would hold off on further rate hikes in early 2023 fueled a strong start to the year for US equity market.
- Top-performing sectors were Technology, Communications, and Consumer Discretionary, while Financials and Healthcare were the worst performers. Investors favored sectors expected to benefit from the Federal Reserve's change in policy. Mega-cap companies in Technology performed the best, while the Financials sector suffered from the Silicon Valley Bank collapse and major bank declines.
- During the quarter, the Federal Reserve hiked its policy rate by 0.25% each in February and March, bringing the rate to a range of 4.75% to 5.00%. This marked the ninth rate hike since March 2022. The Fed views the US banking system as "sound and resilient" and reiterated its commitment to continue to fight inflation.
- US GDP growth for 2022 was 2.1%, and Q4 2022 growth trended down to 2.6%. The labor market remains strong, with a 3.5% unemployment rate at year-end. US CPI decreased slightly, with a year-over-year increase of 6.0% in February. The national unemployment rate was 3.6% in February 2023. The US dollar weakened by -0.9% against major currencies in Q1 due to changes in rate hike expectations.

International Markets

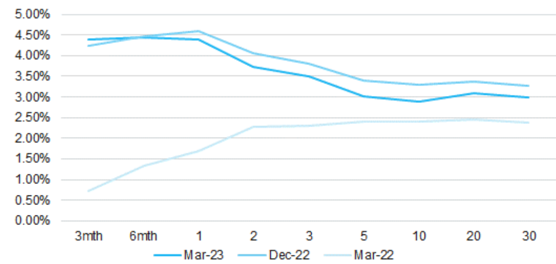
- During the quarter, developed international markets outperformed the Canadian and US markets, with the MSCI EAFE Index returning 8.3%.
- Most sectors posted positive returns, except for Real Estate. Technology led the way with a strong return of 18.8%, followed by Consumer Discretionary with 16.9%. Real Estate and Energy were among the worst performers, returning -2.2% and 0.3% respectively. The Financials sector underperformed the index with a return of 2.4%, largely due to the collapse of Credit Suisse, which led to a general lack of trust in the banking sector.
- The Bank of England has increased its key interest rate twice this year, with a 0.5% hike in January followed by another 0.25% increase in March, bringing the total to 4.25%. However, despite the Bank's efforts to curb inflation, the year-over-year CPI rose from 10.1% in January to 10.4% in February. This high inflation environment is taking a toll on UK consumers, who are struggling to keep up.
- Unlike other central banks' policies, the Bank of Japan maintained its key interest rate at -0.10%, a value that has remained unchanged since 2016. Furthermore, Japan's main index, the Nikkei 225, returned 6.4% (CAD-Hedged Index) and national inflation dropped to 3.3% in February 2023, which is lower than most western countries.

Emerging Markets Equity

- Despite the global economic rebound, emerging markets underperformed major markets in the first quarter of 2023, with the MSCI Emerging Markets Index posting a return of 3.9%.
- The Technology sector was the top performer, returning 14.7%, albeit underperforming developed markets in the sector. However, the Index's overall performance was dragged down by underperforming sectors, with Utilities, Health Care, Financial and Energy being the main detractors with respective returns of -10.5%, -5.0%, -0.9% and -0.4%.
- China's economy rebounded from 2022 with the help of relaxed Covid restrictions and regulatory easing for its tech companies. Additionally, the government implemented supportive housing market policies in response to a crisis in the property market. Despite the escalation of geopolitical tensions between China and the US during the quarter, investors remain optimistic towards China's economy following their re-opening. China's inflation data shows that consumer prices are rising at a slower pace than most developed countries, which provides room for further economic recovery.
- India produced unfavorable returns during the quarter, caused by a sell off by foreign investors and investor caution as economic growth in the country decelerated.

Canadian Fixed Income

Canadian Sovereign Yield Curve



The government bond yield curve shifted lower with investors increasingly expecting a pivot in central bank monetary policies. The FTSE Canada Bond Universe Index performed well, returning 3.2% Long-term bonds stood out with the highest return of 4.7%, while mid-term and short-term bonds returned 3.9% and 1.8%, respectively. On the sector front, provincial bonds outperformed both federal and corporate bonds, returning 3.8%, 2.9%, and 2.8%, respectively. Within global bond markets, government bonds outperformed corporate grade and high yield bonds as high yield bonds were affected by the poor performance from the banking sector.

The Impact on Concert

- Following the markets correction in 2022, major indexes experienced a rebound in the first quarter of 2023, in both equities and fixed income asset classes. This allowed Concert funds to achieve strong positive total returns for the quarter, ranging from 2.44% for Income Fund to 3.62% for Canadian Balanced Growth Fund. Nonetheless, the relative performance against their benchmarks was notably negative during this period for Concert funds, ranging from -1.25% to -3.08%. This was primarily attributed to the underperformance of the three AGF global equity funds.
- During the first quarter, global asset allocation decisions positively impacted the relative performance compared to the policy benchmark, primarily due to the overweight position in US equities and underweight position to cash.
- In Fixed Income allocations, contrary to the previous quarter, the diversification of bond allocation towards global bonds, particularly by increasing the position in the AGF Total Return Bond Fund, slightly hindered relative performance, despite a positive absolute performance. Indeed, Canadian bond indices outperformed global bonds, primarily as a result of the Bank of Canada's decision to pause its key interest rate increases. Additionally, credit sensitive global fixed income sectors encountered additional challenges due to the collapse of major banks during the quarter and contagion fears.
- Within Equity allocations, the increased US equities overweight was a positive contributor to Concert Funds' performances, as US indexes were top performers throughout the quarter. Conversely, dividend-oriented stocks appeared less attractive for the investors and globally underperformed.
- During a market rebound, quality-focused investments can experience slight underperformance. Nonetheless, in light of the 2023 uncertainties and the intensifying inversion of the yield curve, a common recession predictor, Concert Funds remain well-positioned.

Investment Clarifications

- The S&P/TSX Composite Index is a capitalization-weighted index designed to measure market activity for securities listed on the Toronto Stock Exchange. It is an index of stocks considered to be generally representative of the Canadian equity market.
- The S&P 500 Index is a market capitalization-weighted index of roughly 500 common stocks chosen for market size, liquidity, and industry group representation to represent U.S. equity performance.
- The MSCI EAFE Index is an index that covers 21 international markets apart from Canada and the United States. The acronym stands for Europe, Australasia, and the Far East, and represents the equity markets of developed markets outside of North America.
- The MSCI World Index is a market capitalization-weighted index of 1,500+ stocks from 23 countries (including the United States and Canada) and covers 85% of the free float-adjusted market cap of each country. It is considered representative of stocks in global developed markets.
- The MSCI Emerging Markets Index captures large-and-mid cap representation across 26 Emerging Markets (EM) countries, and represents the equity markets of emerging countries and economies.
- The FTSE Canada Universe Bond Index measures the performance of investment grade domestic government and corporate bonds.
- The FTSE Canada Canadian Treasury Bill 91 Day Index tracks the performance of the Government of Canada 91-Day Treasury Bills.

Mutual funds are offered by PFSL Investments Canada Ltd, mutual fund dealer. The head office is in Mississauga, Ontario

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