

Purpose “WHY” Report

Portfolio construction insights - Why we are tilted the way we are

Purpose Macro Investment Team

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Asset Allocation tilts - Why

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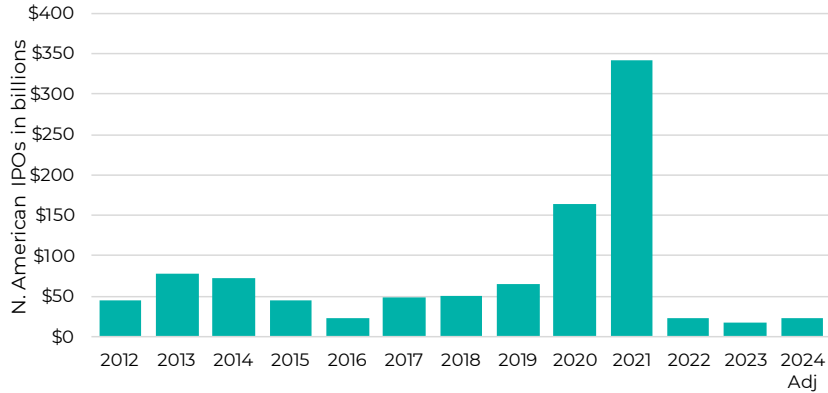
Active Asset Allocation Strategic Guidance

House View		Underweight	Neutral	Overweight
Overall	Equity	•		
	Bonds		•	
	Cash		•	
	Diversifiers	•		
Equities	Canada		•	
	U.S.	•		
	International		•	
	Emerging Markets	•		
	Style Allocation (Value <----> Growth)	•		
	Size (Small <-----> Large cap)			•
Fixed Income	Government			•
	Credit		•	
	Investment Grade			•
	High Yield	•		
	Preferred Shares			•
	Duration			•
Diversifiers	Volatility Reduction Strategies			•
	Growth Strategies		•	
	Structured Product / Yield		•	
	Real Assets			•
		Passive	Active	
Act/Pass	Management Approach		•	

I. Chart(s) of the Month

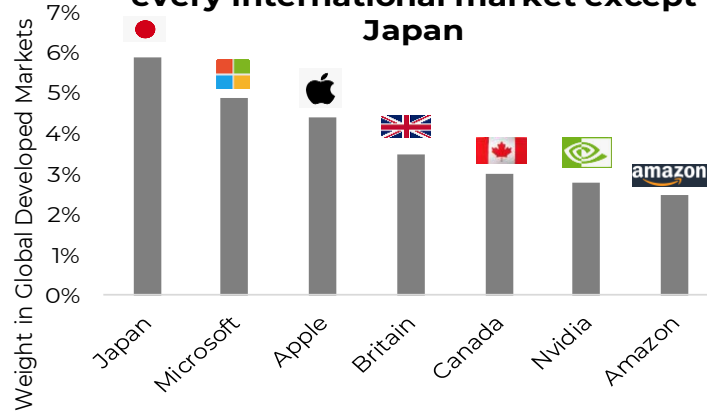
Chart Referencing:
TL = Top Left, TR = Top Right
BL = Bottom Left, BR = Bottom Right

Despite markets making new highs, IPO market remains rather quiet



Source: Bloomberg, Purpose Investments

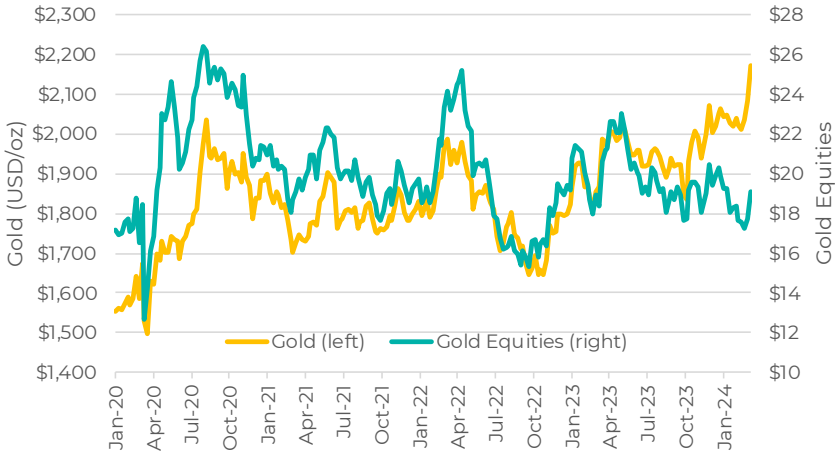
Microsoft & Apple are bigger than every international market except Japan



Source: Bloomberg, Purpose Investments

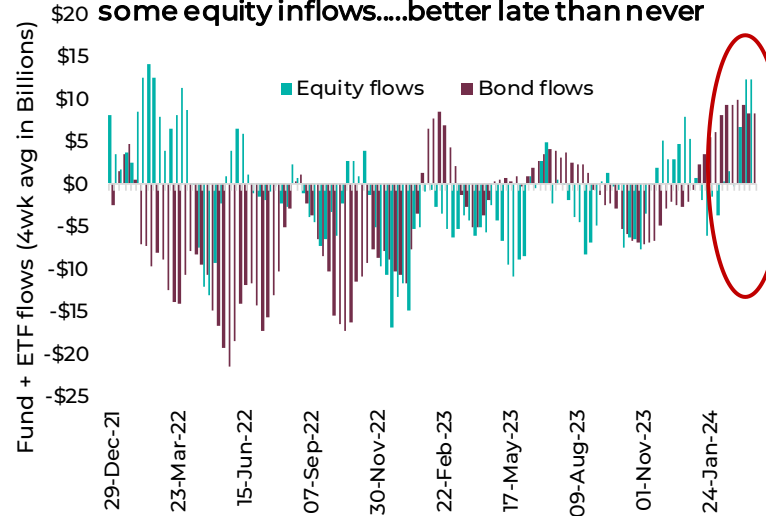
- TL – There is lots of talk of bubbles given the speed of the market advance over the past 6-months, one would think a bubble would see more companies tapping markets for fresh capital.
- TR – This is from last month, but we added logos which makes it even more fun.
- BL – Gold and gold stocks are highly correlated, with more leverage in stocks. The recent divergence between gold and gold stocks was enticing enough to have us move some of our bullion into gold equities.
- BR – Fund + ETF flows are a good proxy for retail investor behavior. Flows have finally turned materially positive for equities over the past month (aqua bars), suppose better late than never.

Bullion and Gold Equities have diverged



Source: Bloomberg, Purpose Investments

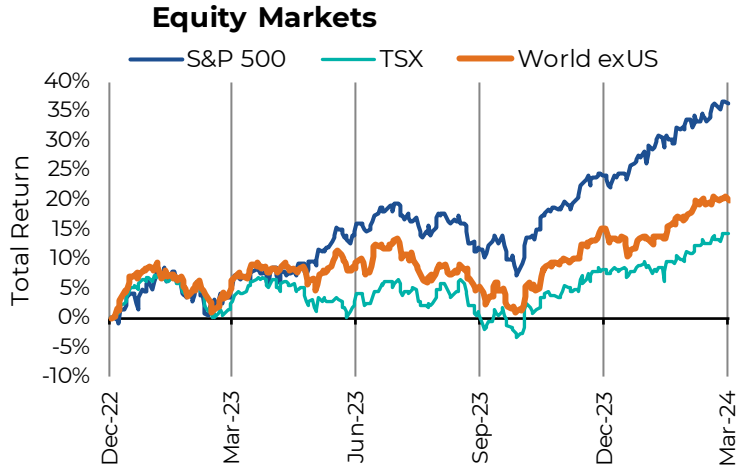
Bonds & Cash have received most retail flows over the past year+, but now we have seen some equity inflows....better late than never



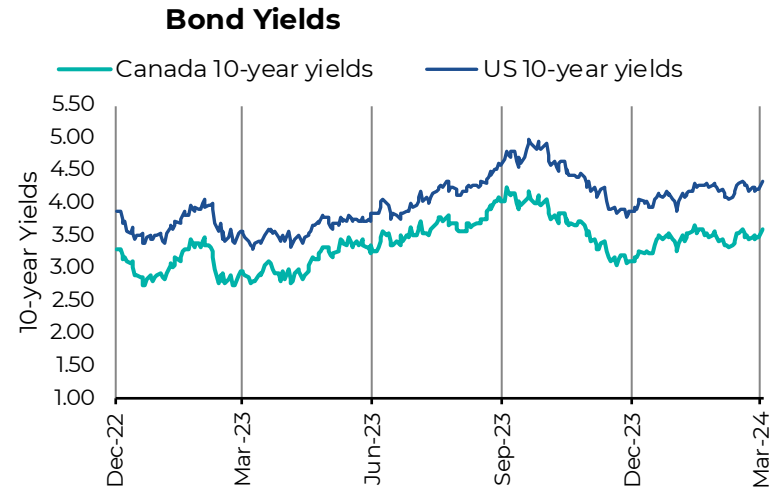
Source: Bloomberg, ICI, Purpose Investments



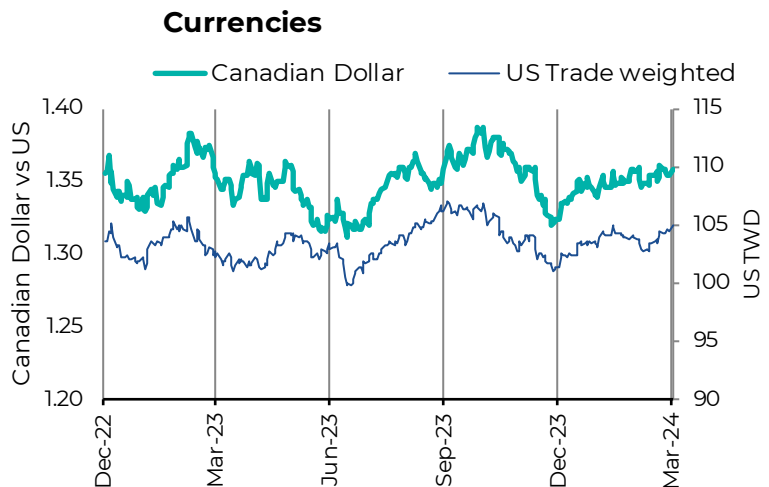
II. Markets – Q1 let the good times roll



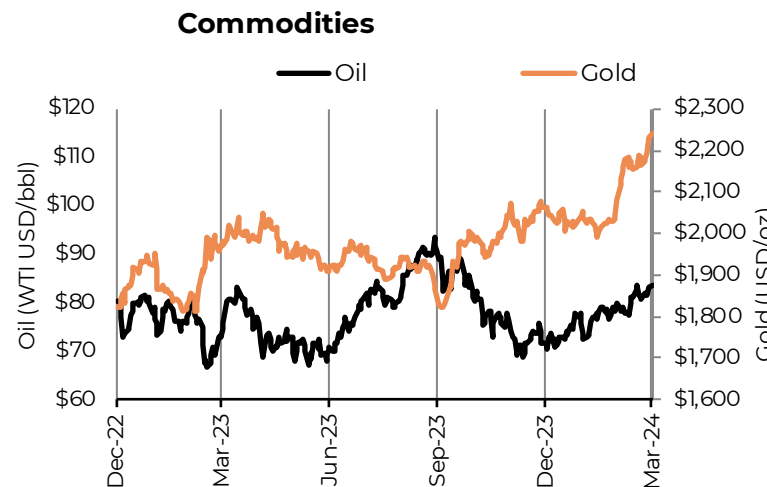
Source: Bloomberg, Purpose Investments



Source: Bloomberg, Purpose Investments



Source: Bloomberg, Purpose Investments

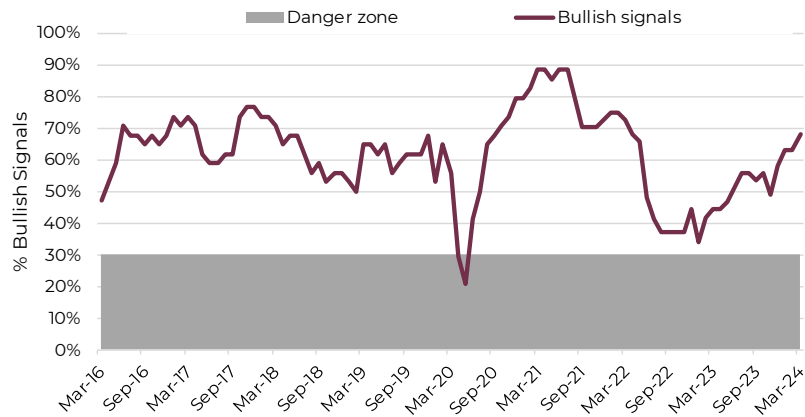


Source: Bloomberg, Purpose Investments

- TL – Worry? Why worry? So says the equity market as most have rallied over +20% during the past six months. Better global economic data appears to be the driver for now.
- Rare to have such a strong advance in a 4-month period that wasn't coming out of a deeper bear market, or not accompanied by positive earnings revisions.
- TR – Better economic data is seeing bond yields tick a bit higher. It is around 4.25% for the 10-year US yield that has seen the markets react negatively in the past. But may markets are used to these yields now.
- BL – USD has been strengthening against most others. Odd, usually when economic growth is good and markets are moving higher, the USD softens.
- BR – Gold is even more odd, strong equities, improving economy does not match higher gold. Maybe trying to keep up to bitcoin. There has been increased gold buying from China, given their stock & real estate markets don't appear to be pathways to becoming rich.
- Other commodities including oil, copper, softs, have all been trending up.

III. Market Cycle

Market cycle indicators - continue to improve



Source: Purpose Investments, Bloomberg

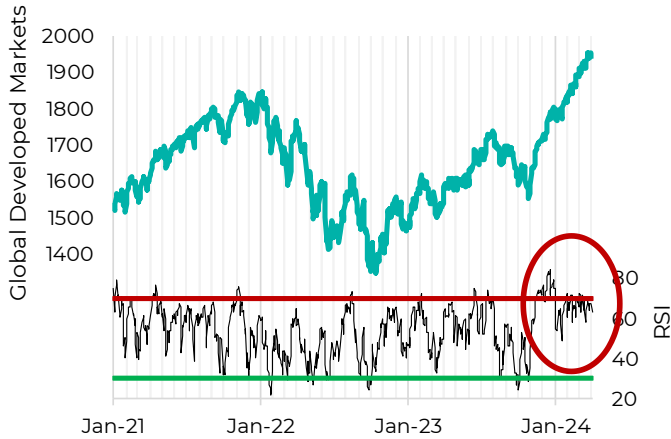
- Top – Market cycle indicators continued to improve in March. This is alleviating recession fears. While this cycle is truly proving more unique than most, broader recession risk is certainly on the decline.
- Market Cycle indicators are comprised of over 40 indicators that have in the past proven to be a good forward looking signal for the broader economy.
- Bottom – Of notable improvement of late is the Global Economic signals, which have really moved from bearish to bullish over the last little while.
- The U.S. economy has remained in decent shape with some small bits of improvement.
- Fundamentals are starting to improve. Valuations are expensive in the U.S. but a small bit of revisions is encouraging.

Market cycle indicators		Better/ Worse		Grouping		Better/ Worse				
Grouping	Metric	🐘	🐘	3 / 0	Grouping	Metric	🐘	🐘	6 / 2	
Rates	Net Cuts	✓		+	Global Economy	Global PMI	✓		+	
	Yield Curve	✓	✓	+			Copper (6m)	✓		+
	Yield Curve 3m	✓		+			DRAM (3m)	✓		-
US Economy		🐘	🐘	13 / 6		Oil (3m)	✓		+	
	Leading Ind (3m)	✓	✓	+		Commodities (3m)	✓		+	
	Leading Ind (6m)	✓	✓	+		Baltic Freight (3m)	✓	✓	-	
	Phili Fed Coincident	✓		-		Kospi (2m)	✓		+	
	Credit (3m)	✓		+		EM (2m)	✓		+	
	Recession Prob (NY Fed)	✓		-	Fundamentals		🐘	🐘	6 / 6	
	Recession Prob (Clev Fed)	✓	✓	-		US: PE		✓	-	
	Citi Eco Surprise	✓		+		US: EPS Growth	✓		+	
	GPD Now (Atlanta Fed)	✓		+		US: EPS 2FY v 1FY	✓		+	
	US Unemployment	✓	✓	-		US: 3m EPS Revision	✓		+	
	Consumer Sentiment (3m)	✓		-		Canada: PE	✓		-	
						Canada: EPS Growth	✓		+	
Manufacturing	PMI	✓		+		Canada: EPS 2FY v 1FY	✓		-	
	PMI New Orders	✓		+		Canada: 3m EPS Revision	✓	✓	+	
	Energy Demand (YoY)	✓		-		International: PE	✓		-	
	Truck Demand (YoY)	✓		+		Int: EPS Growth	✓		+	
	Rail (YoY)	✓		+		Int: EPS 2FY v 1FY	✓	✓	-	
						Int: 3m EPS Revision	✓	✓	-	
Housing	Starts (6m)	✓		+						
	Months Supply (6m)	✓		+						
	Home Sales	✓		+						
	New Home Sales	✓		+						
	NAHB Mkt Activity	✓	✓	-						

Source: Purpose Investments, Bloomberg

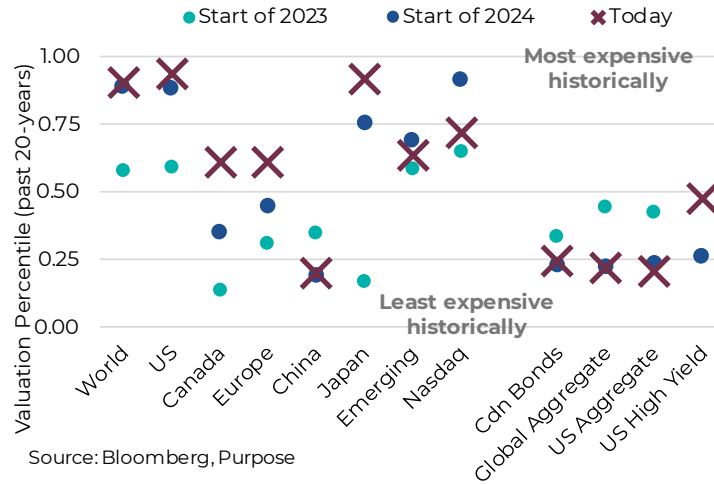
IV. Why moderate underweight equity & holding more cash

This market is overbought



Source: Bloomberg, Purpose

Equity valuations are high-ish, bond valuations are low



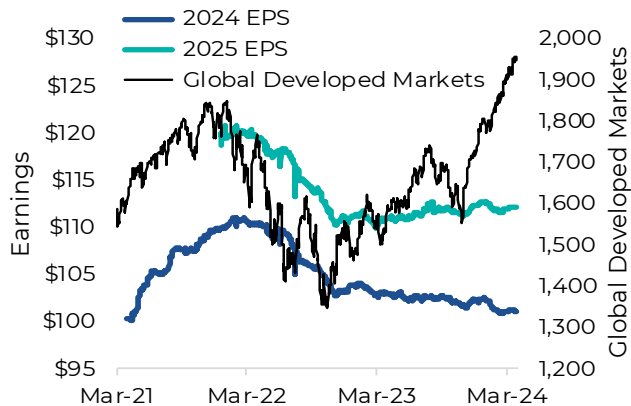
Source: Bloomberg, Purpose

Balanced Equity: 54% vs 57% baseline, Cash 7% vs 2% baseline.

- Still at the party, but feel more comfortable standing closer to the door with a defensive asset allocation tilt
- We remain impressed with American economic resilience, let's not forget UK, Japan, Germany, Canada all had negative GDP prints lately
- TL – Many markets are now overbought, not just the U.S.
- TR – No denying valuations are not appealing. US is skewing global valuations to the high side along with Japan. Yet even Canada and Europe are no longer on the cheaper side of averages for the past twenty years.
- BL – Issue is the rally over the past few months has come as earnings estimates have been falling. This is not sustainable.
- BR – Economic data has been coming in better than forecasts, with Canada being the exception.

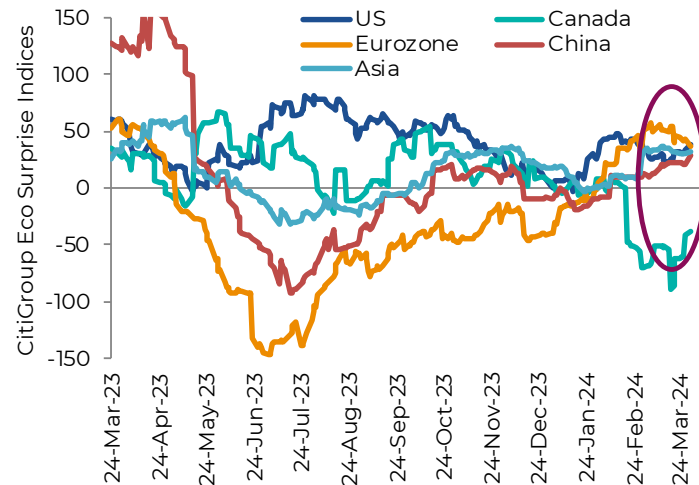
Risks to our view – The U.S. and even global markets are now very concentrated in a few names. If this narrow exceptionalism continues, markets could continue to rise as has been the recent pattern. As this continues, risks are rising.

Price up, earnings flat is not sustainable



Source: Bloomberg, Purpose Investments

Eco data: Canada poor, US rolling over

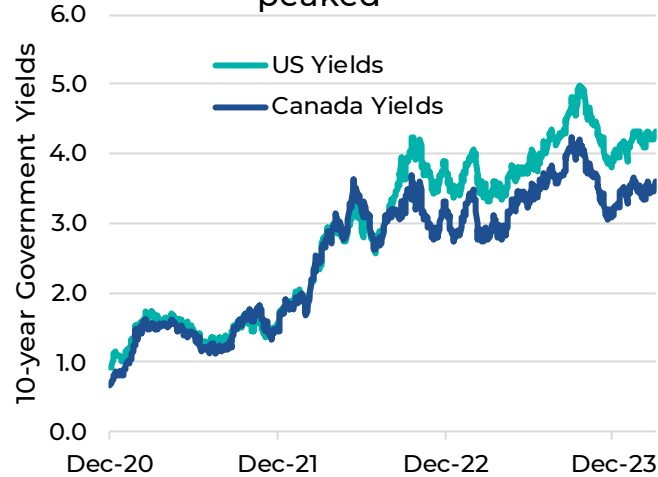


Source: Bloomberg, Citigroup, Purpose Investments



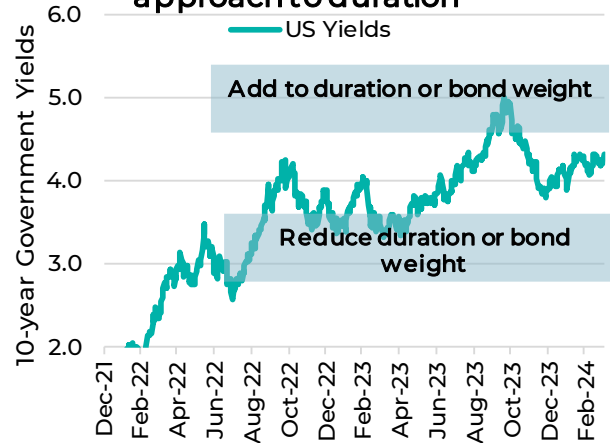
V. Why overweight bonds

We believe bond yields have peaked



Source: Bloomberg, Purpose Investments

Will remain rangebound, fostering a more tactical approach to duration



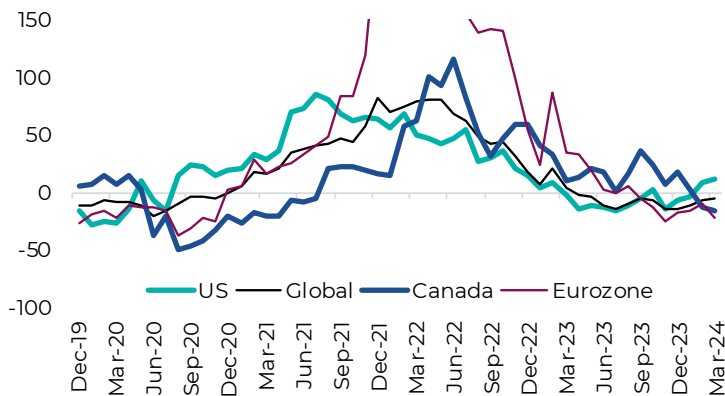
Source: Bloomberg, Purpose Investments

Balanced: Bonds 38% vs 36% baseline

- TL – Assuming inflation does not reaccelerate, yields likely peaked in 2023. Even with the stronger economic data of late, yields have not moved up materially.
- TR – Believe yields will remain rangebound. This supports tactically moving around duration and bonds weights. When yields higher, adding. When lower, trimming.
- BL – The uptick of U.S. inflation is a risk to bonds. Could be partly due to some reclassification on OER. But no denying stronger U.S. economic data is keeping inflation elevated. Trends outside the US remain encouraging.
- BL – On the credit side, while the quality is higher historical levels, spreads are still very optimistic. That doesn't leave much room for further improvement. Hence our tilt towards govies, or opportunistic exposure such as prefs.

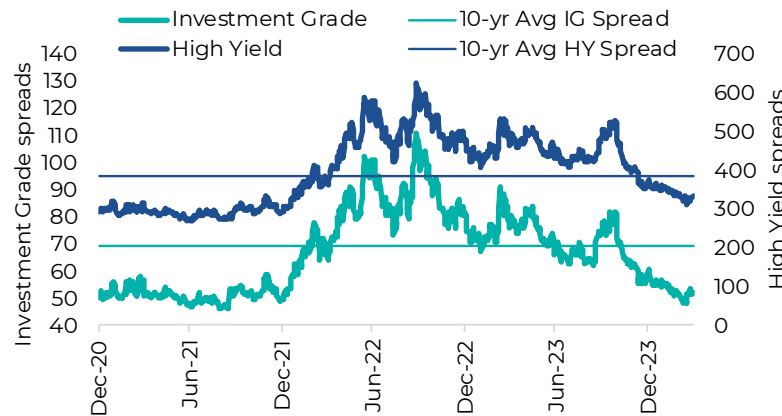
Risks to our view – global trade has picked up a smidge of late, if this were to accelerate, inflation may arrest its decline.

Citi Inflation Surprise Indices - US trend is troubling



Source: Bloomberg, CitiGroup, Purpose Investments

Credit spreads clearly pricing in a very optimistic world

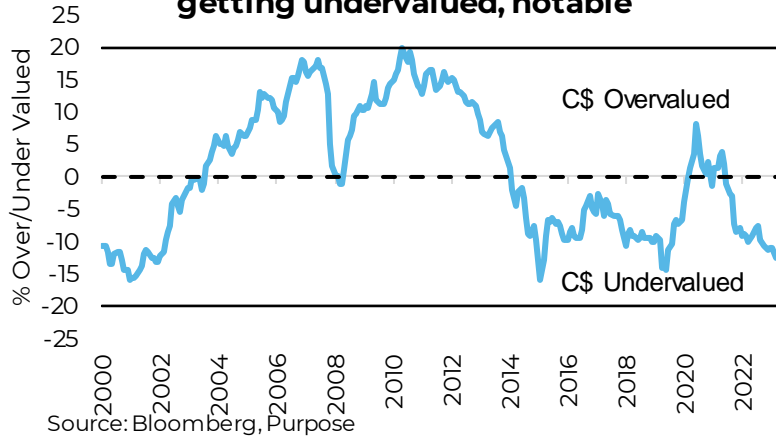


Source: Bloomberg, Purpose Investments

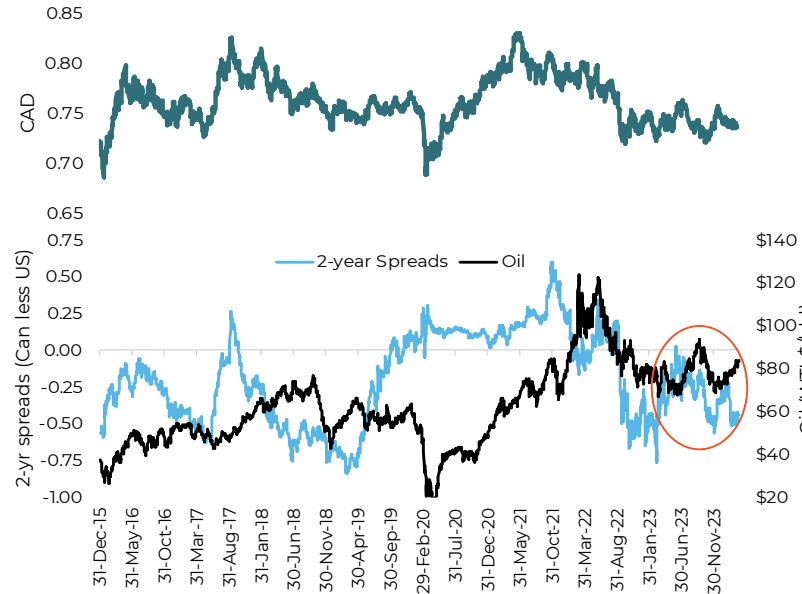


VI. Why largely unhedged USD

Purchasing Power Parity has the CAD getting undervalued, notable



Key CAD drivers remain rangebound



➤ TL – From a purchasing power parity point of view, the Canadian is undervalued and starting to look interesting. However we remain cautious for a few reasons.

➤ TR – Loonies remain rangebound versus the U.S. dollar. Key drivers are rate differentials and commodity prices like oil. For now, both remain rather stuck around current levels

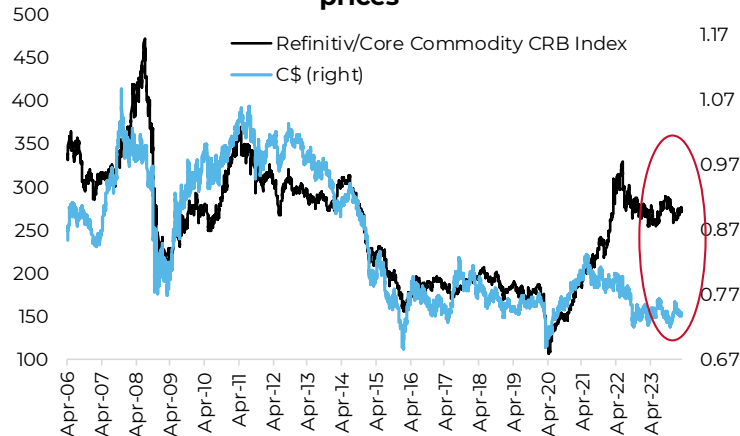
➤ BL – One would think given commodity prices, the CAD should be higher.

➤ BR- But it is the rising recession risk in Canada vs the U.S. that is the biggest driver at the moment. Rate cut expectations between Canada and the US continue to narrow, would not be surprised to see more in Canada than US as this year progresses.

➤ USD exposure is a hedge against something deteriorating. It is a safe haven currency which we continue to want exposure to for diversification/safety reasons.

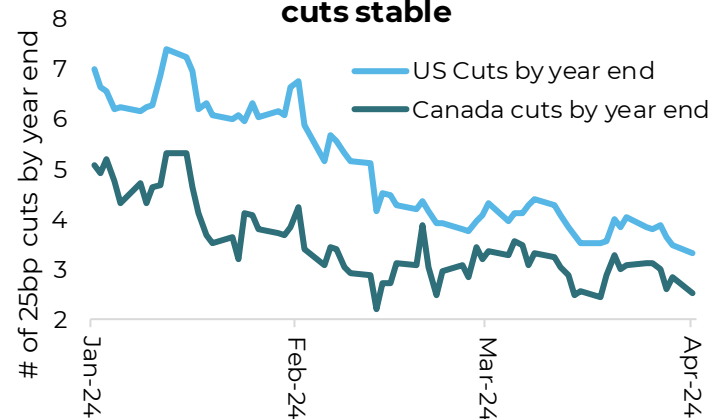
➤ At some point we will pivot, just not yet.

The CAD is weak despite high commodity prices



Source: Bloomberg, Purpose Investments

Fed cut expectations falling, Canadian cuts stable

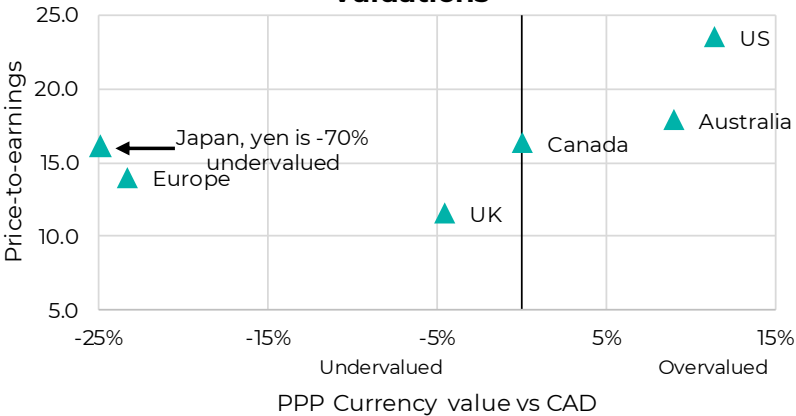


Source: Bloomberg, Implied central bank rates,



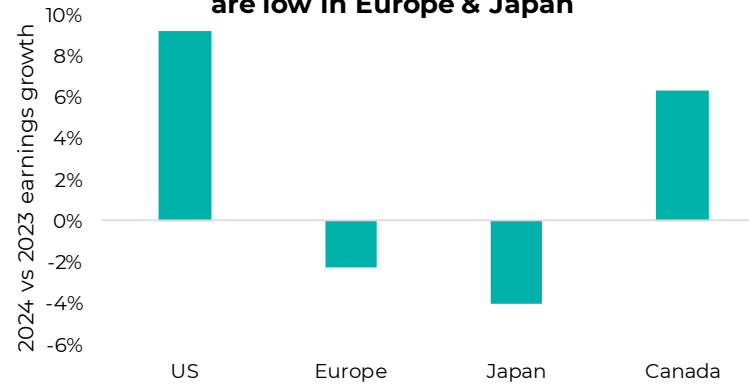
VII. Why overweight international developed, market weight Canada & underweight US equities

Currency Valuations & Stock Market Valuations



Source: Bloomberg, Purpose Investments

Earnings Growth Consensus Expectations are low in Europe & Japan

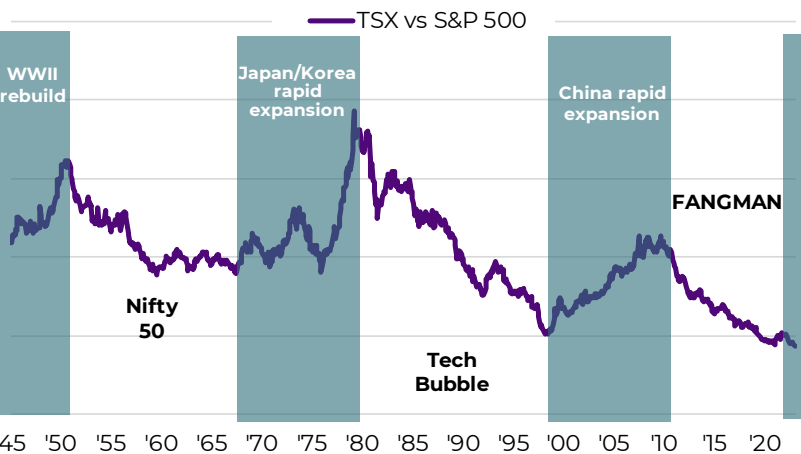


Source: Bloomberg, Purpose Investments

Balanced Equity: TSX 37% vs 35% baseline, International developed 39% vs 35%, US 26% vs 30%

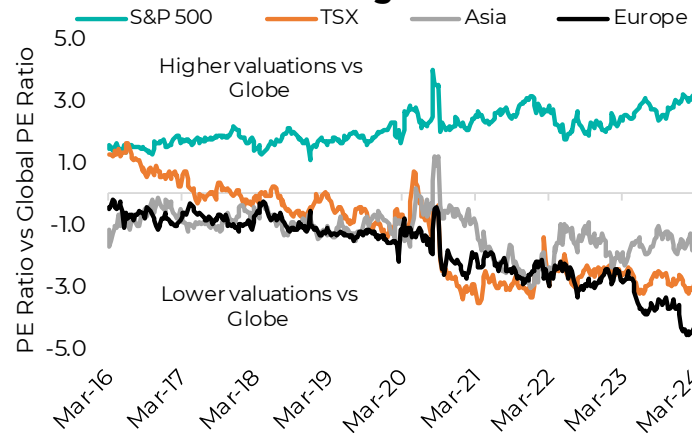
- TL - No question valuations favor international developed markets are cheaper than Canada and way cheaper than US. Add currency to the mix, it is even more compelling.
- BL - After years of US outperformance, table is set for a reversal...at some point
- TR - We believe earnings growth consensus forecasts are too high in US and too low internationally. Especially if global trade is starting to improve.
- BR - on a relative basis, valuations are really stretched.

We believe the next cycle will favour Canada and international over US



Source: Bloomberg, Purpose Investments

PE Ratios compared to the PE Ratio of the globe



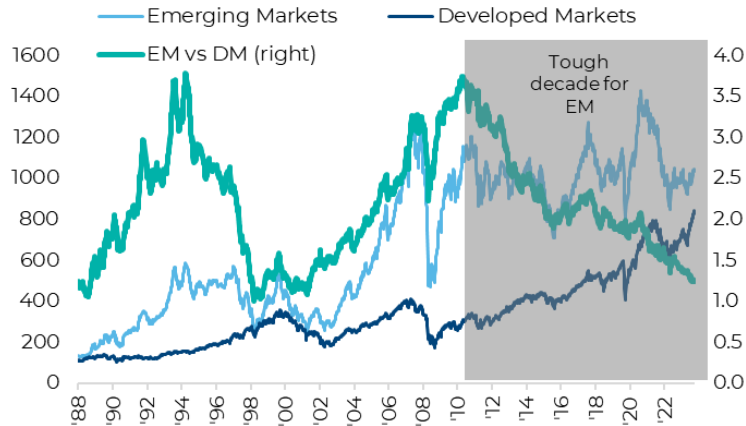
Source: Bloomberg, Purpose Investments

Risks to our view - the obvious is if megacap tech is going to continue to lead, the US will outperform.



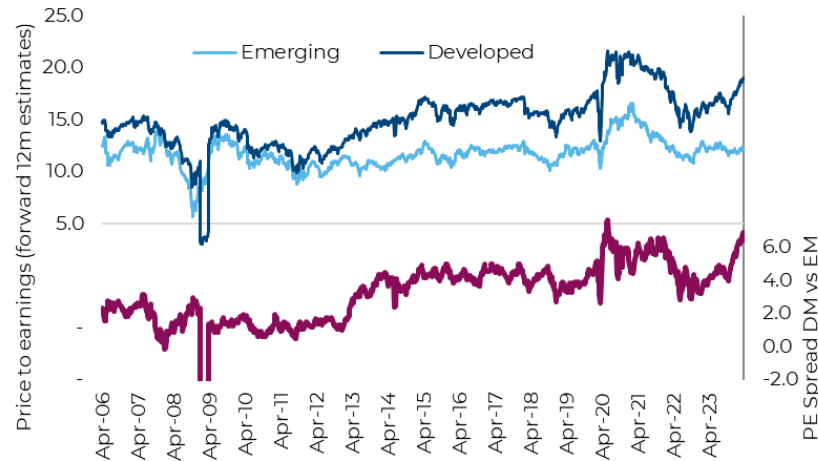
VIII. Why we're warming to emerging markets

EM's day is coming...just not just yet



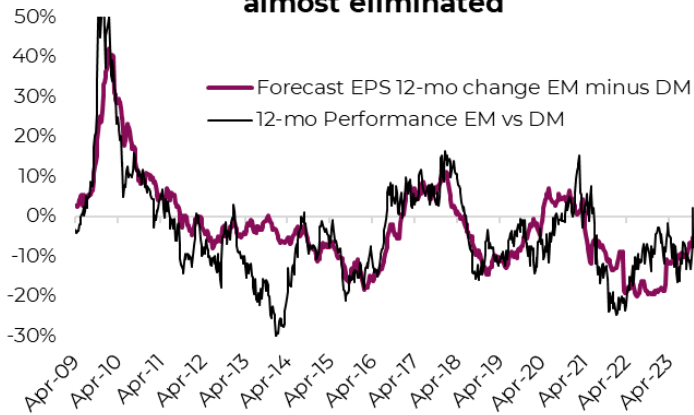
Source: Bloomberg, Purpose Investments

Valuations REALLY favour EM



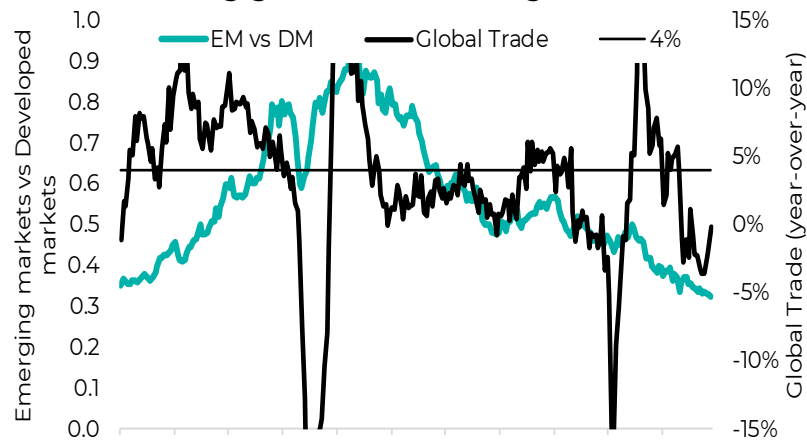
Source: Bloomberg, Purpose Investments

Earnings growth gap between developed and emerging markets is almost eliminated



Source: Bloomberg, Purpose Investments

Falling global trade is not good for EM



Source: Bloomberg, Purpose Investments

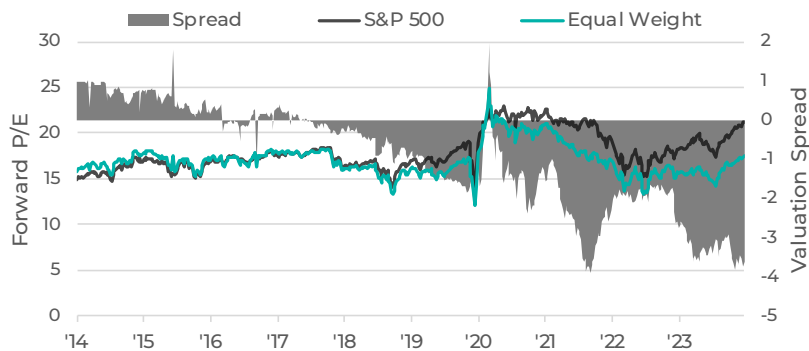
Balanced Equity Allocation: 0% EM with baseline of 5%.

- TL – Past decade has seen EM flat while DM has performed well. This will reverse someday, just not yet. Recovery in China will play a key role.
- EM typically does best when liquidity is improving, not tightening. With central banks nearing a pivot this should help global growth
- TR – The valuation gap has recently spiked back to a FULL 6 points. That is pretty extreme. Safe to say valuations favor EM.
- BL – EM outperforms when earnings growth is higher than DM earnings growth. This is moving in the right direction with the spread nearly flat yet still not reflected in price performance.
- BR – EM does better when global trade is growing....currently global trade is slowing but is starting to improve. Central bank pivot should also help stimulate global growth
- Not quite convinced yet, but warming considering EMs have shown considerable resilience, weathering higher borrowing costs, strong USD, inflation and declining global growth

Risks to our view – There has been some uptick in global trade (exports in Korea, Taiwan) but still early to call a trend. China will play a key role, but we're seeing some positive consumer trends (i.e. gaming revenue)

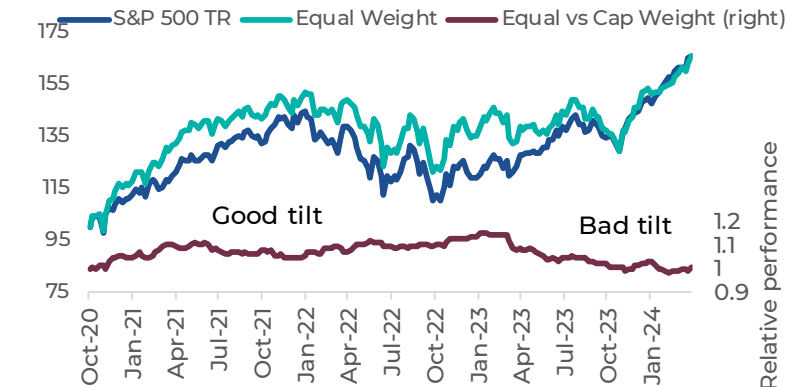
IX. Why equal weight U.S. equity exposure

Valuations over the past 10 years
Equal Weight is back to being historically cheap again



Source: Bloomberg, Purpose Investments

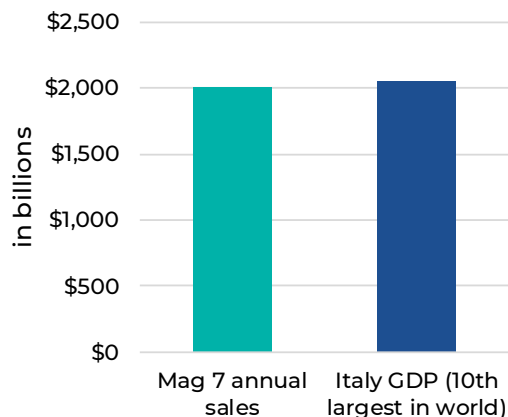
Equal weight has underperformed over the past year



Source: Bloomberg, Purpose Investments

- TL - Equal weight index is attractively valued relative to the market cap weighted index. Spread is back to decade wide levels, similar to set up in 2021.
- TR - Equal weight has underperformed over the past year, after outperforming in 2022. Not surprising given majority of returns in 2023 were driven by so few stocks. Lots of concentration at the top end of the market.
- 2024 performance is roughly equal. While a few of the Mag 7 are still doing some heavy lifting (NVDA, MSFT, META), some are doing some heavy detracting (AAPL, TSLA).

What happens when growth slows due to size?



Source: Bloomberg, Purpose Investments

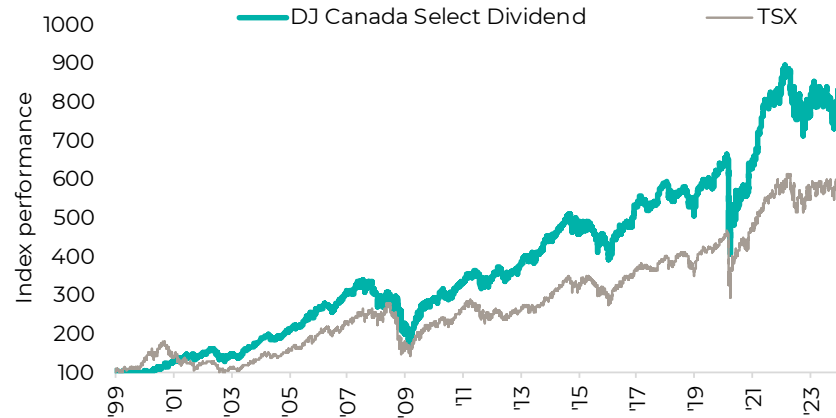
Weight of the top 10 stocks in the S&P 500



- BL - Concentration risk has risen so much. Sales growth next year is the equivalent of Portugal's entire GDP.
- **Risks to our view** - While equal weight might be cheap, it is more cyclical. Many investors maintain confidence in the resilience of mega-cap technology stocks during economic downturns, attributing this to their robust fortress like balance sheets

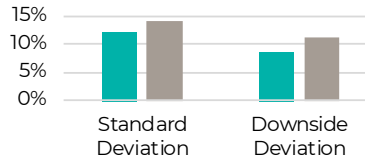
X. Why dividend factor tilt

Dividend stocks dominance over the TSX

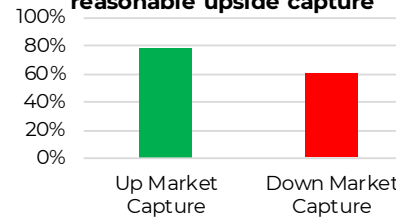


Source: Bloomberg, Purpose Investments

Dividend stocks offer added portfolio stability



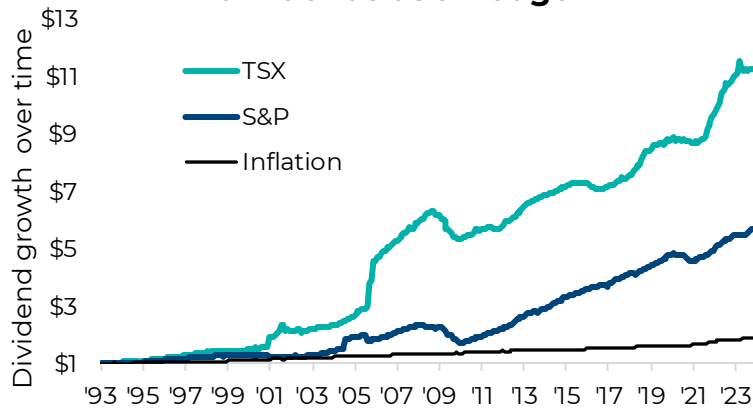
and less downside participation with still reasonable upside capture



1/3 of equity allocation are dividend focused strategies

- TL & TR – given our view that a slowdown or recession remains a risk, there is some degree of safety in dividend factor. Historically, less volatile, less downside and its cheap.
- And the available yields are pretty attractive, especially on an after tax basis.
- BL – inflation may be softening but we believe it will remain a recurring issue in the coming years. This erodes your future wealth. Dividends have a long history of growing faster than inflation over time. A good hedge.
- BR - Varying factors driving performance has led to greater divergence among dividend strategies. This favors active dividend over static or even factor based.

Worried about inflation, look to dividends as a hedge



Source: Bloomberg, Purpose Investments

Changing yield world is leading to greater divergence among dividend strategies



Source: Bloomberg, Purpose Investments



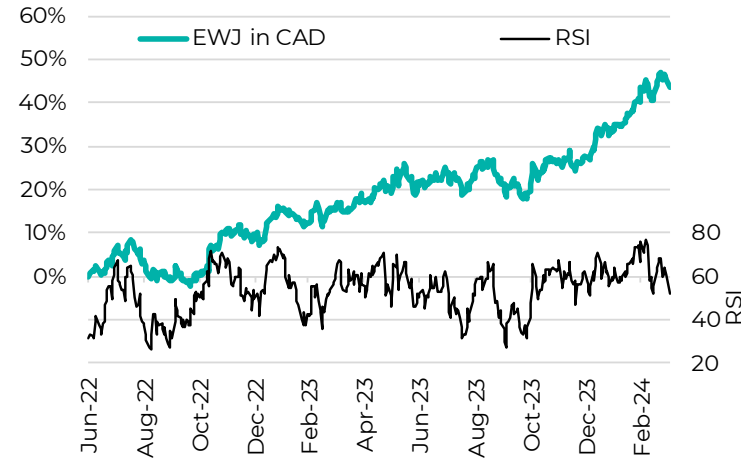
XI. Why Japan

It took 34 years for the Nikkei to make a new all-time high



Source: Bloomberg, Purpose Investments

Do we stay or do we go...we vote stay

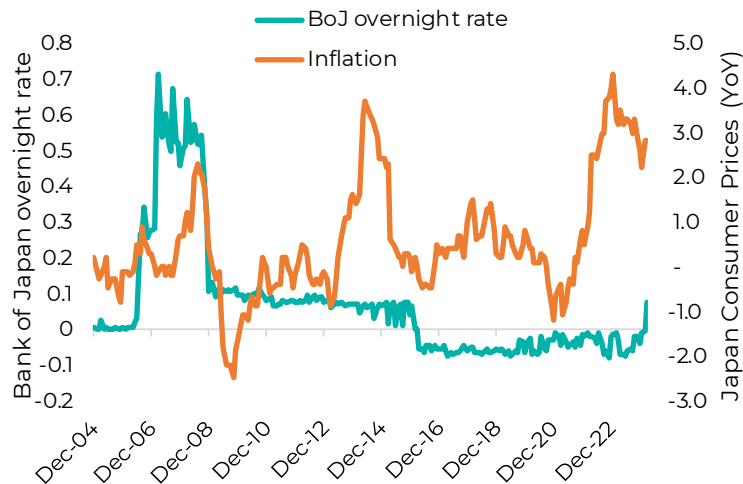


Source: Bloomberg, Purpose Investments

Overweight Asia Developed - Japan

- TL – Buy the dip works in America, not so well in Japan. It took over three decades for the Nikkei to make a new high after its 80s bubble.
- TR – our Japan tilt has worked out very well, question is whether to reduce or maintain overweight. After strong price gains, valuations are more neutral.
- BL – The BoJ finally raised rates from negative to positive, after so many years. This will be a long journey of normalization, and they are already behind given inflation, rising wages.
- BR - Currency however remains very attractive, low yen. That is a huge advantage for exporters.
- Corporate governance has been improving. And despite recent attention, Japan remains a chronic underweight among international equity managers and among domestic Japanese investors. In other words, there is lots of potential buying should this trend continue.

Negative rate experiment is over



Source: Bloomberg, Purpose Investments

Yen remains very cheap

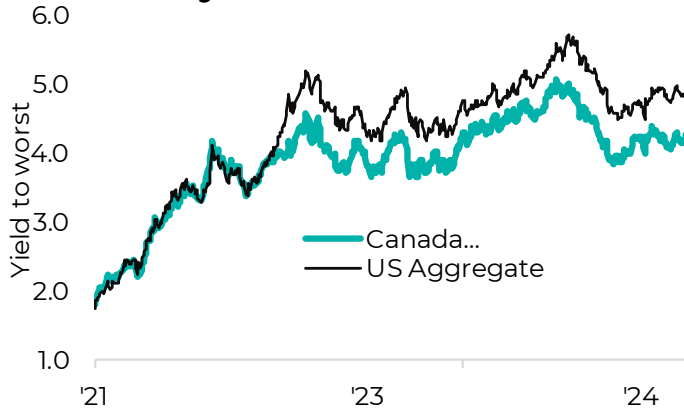


Source: Bloomberg, Purpose Investments



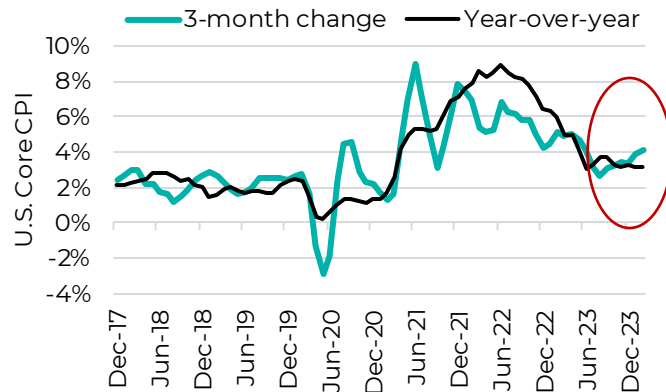
XII. Why duration of 5 1/2

Bond yields remain attractive



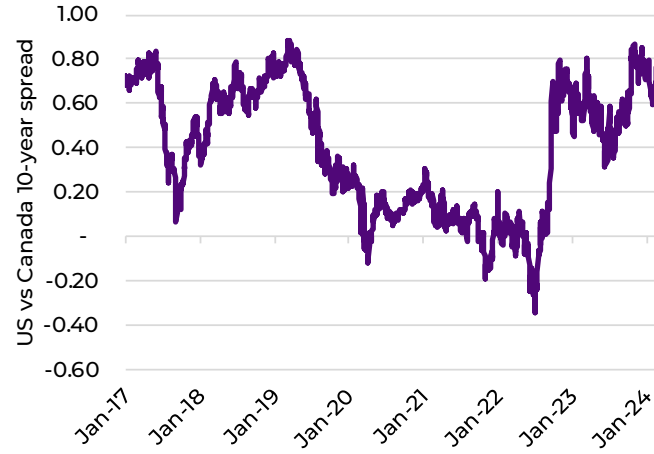
Source: Bloomberg, Purpose

US inflation not going quietly



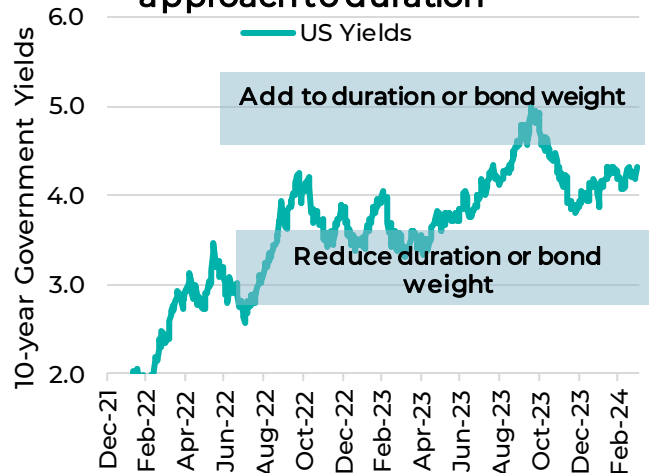
Source: Bloomberg, Purpose Investments

US vs Canadian 10-year yields



Source: Bloomberg, Purpose Investments

Will remain rangebound, fostering a more tactical approach to duration



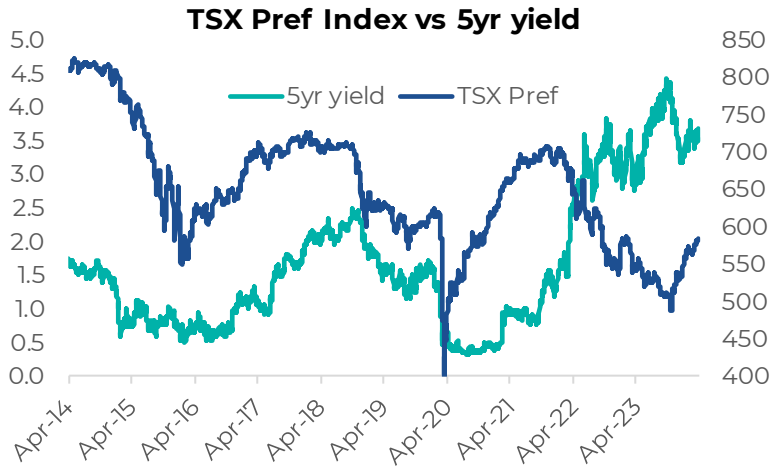
Source: Bloomberg, Purpose Investments

Balanced bond duration is about 5.5

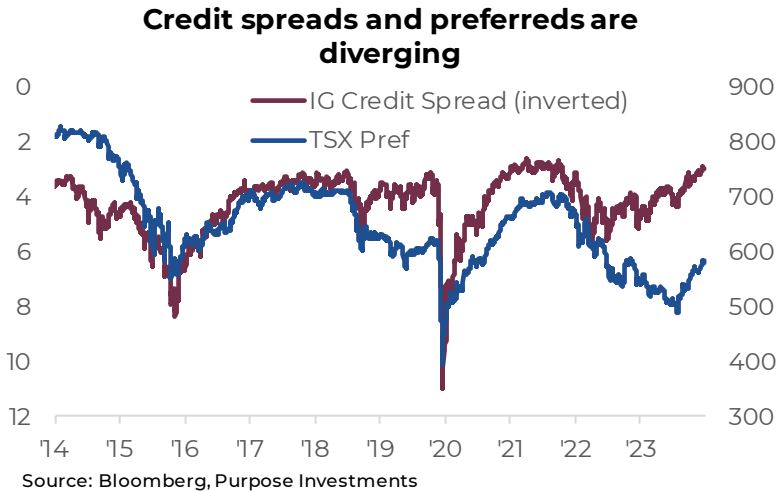
- TL - We are constructive on bonds. With a yield of 4-5%, add some price appreciation given most bonds trading below par and decent single digits. If yields fall due to recession, even better, assuming reasonable credit exposure.
- TR - The economic picture between US and Canada is very different, hence the spread on 10-year yields is very different (US high, Canada lower). It is rather extreme, which does make us a bit more constructive on yield in US.
- BL - We do believe inflation will slowly come down further (not in straight line), weaker economic data will help central banks begin cuts. All great for bonds.
- BR - However could remain rangebound in the meantime due to more resilient US economy and issuance. Trade this range but make sure enough of an overweight in case recession does materialize.

Why not - The uptick in inflation is a risk. If instead of global economic weakness infecting the U.S., the U.S. resilience lifts the global economy, inflation will return and yields would move higher.

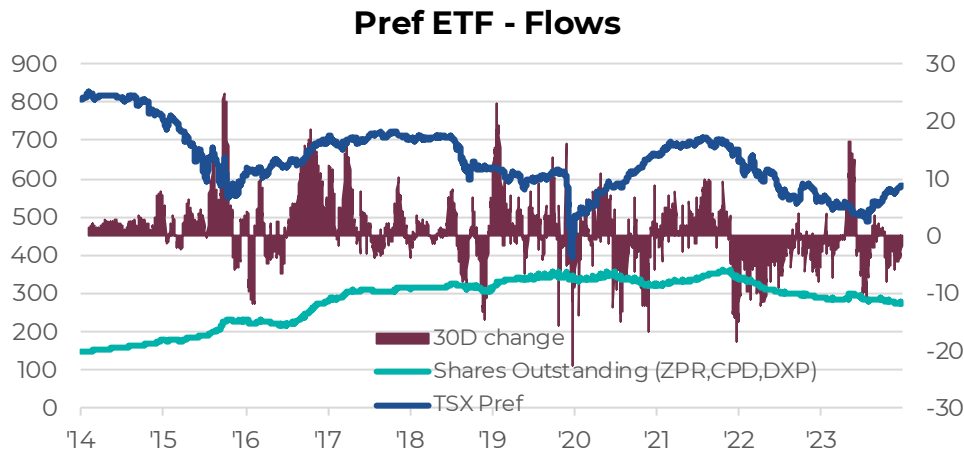
XIII. Why preferred shares



Source: Bloomberg, Purpose Investments



Source: Bloomberg, Purpose Investments

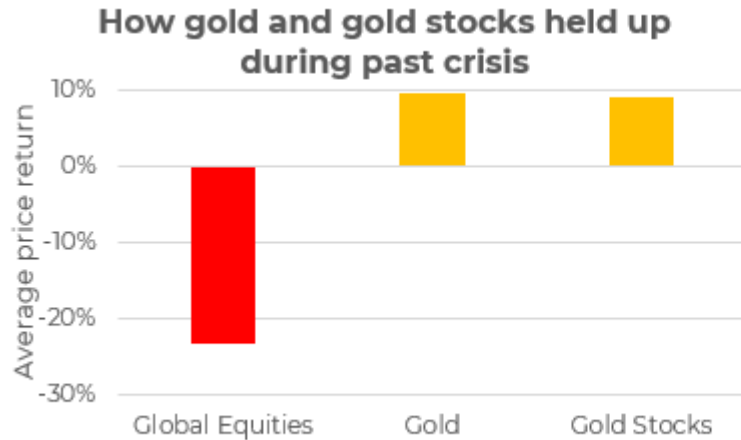


Source: Bloomberg, Purpose Investments

Balanced bond allocation: 7% prefs

- High after-tax adjusted yields are enticing, especially for rate resets. Present an attractive opportunity for investors seeking income and potentially capital appreciation
- We believe the sweet spot in the pref market are rate resets. Those resetting in the near term are more likely to benefit from the elevated 5-year yields.
- Credit spreads and interest rates are the two primary drivers. Spreads are back near cycle lows contradicting current negative sentiment that still surrounds preferred shares
- Technical factors at play - fund flows turned positive briefly then negative again. We believe sellers will diminish.
- Why Purpose Canadian Preferred Share Fund specifically? First, we see its size as an advantage. Reinvestment risk is a real thing in the pref market given corporations deciding not to call their prefs. For smaller funds, such as RPS this risk is smaller.

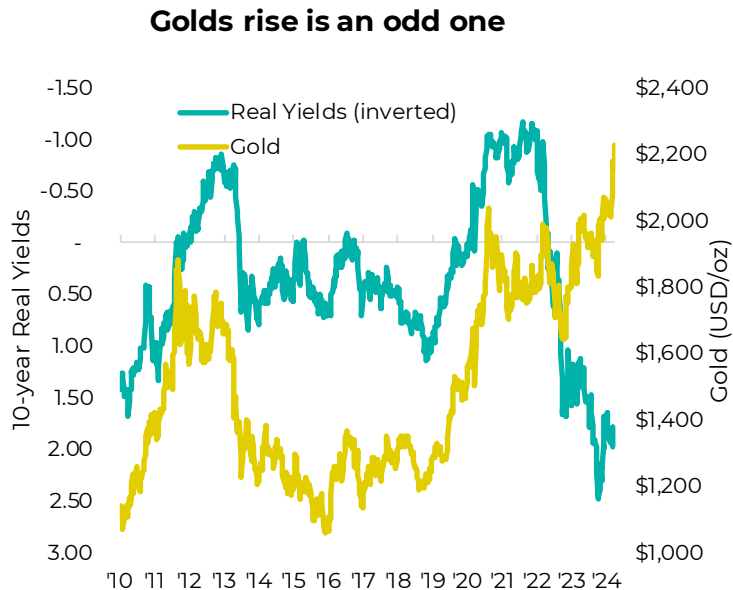
XIV. Tilting gold exposure to more equities than bullion



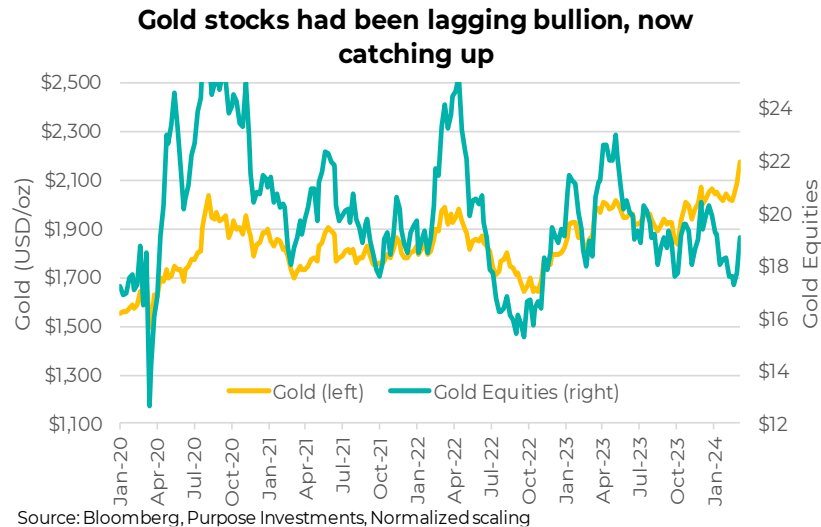
Year	Crisis
1990	1990 Recession
1998	Russian debt crisis & LTCM
2000	Tech bubble burst
2008	Credit crisis
2011	Euro debt crisis
2016	China crisis
2018	Q4 2018 sell-off
2020	Covid
2022	Inflation

Source: Bloomberg, Purpose Investments

- TL – We own gold for crisis alpha purposes. Gold and gold stocks have historically performed rather well during material market dislocations. It is our rainy day position.
- BL - Which makes its recent rise a bit puzzling. Traditional drivers of gold don't appear to be supporting the recent rally. Real yields remain elevated, US dollar has been a bit stronger, retail ETF flows remain negative and markets are making new highs.
- Maybe real gold is just rallying due to rises in crypto. More likely flows from China have become strong as investors look for something to increase wealth (their stock market, real estate nor trips to Macau have proven wealth creators of late).
- BR – We did recently move a portion of bullion into gold equities, to take advantage of a wider spread than usual.



Source: Bloomberg, Purpose Investments



Source: Bloomberg, Purpose Investments, Normalized scaling