



PH&N Balanced Pension Trust Fund

Commentary as at December 31, 2023

Economic growth in 2023 was faster than many economists had predicted at the beginning of the year, defying risks that included inflation exceeding central-bank targets, the highest borrowing costs in about 16 years and two wars on Europe's doorstep. By the end of the period, growth and inflation had begun to slow, prompting investors to anticipate that central banks were moving closer to rolling back a portion of the rate hikes that had taken place since early 2022.

The Fund's neutral position in equities and overweight position in fixed income had a minimal impact on performance. Bonds recovered to post gains in 2023 as signs of economic slowdown, especially in Canada and Europe, pushed down longer-term yields and triggered the speculation about policy-rate cuts. The lack of a recession made the job of policymakers harder, with fears persisting that lower rates, if they occurred, would rekindle inflation. Canada's 10-year benchmark yield ended the year down slightly at 3.11% but earlier touched 4.24%, the highest since July 2007.

Overall, the Fund's fixed-income holdings had a positive impact on portfolio performance, led by the Phillips, Hager & North Bond Fund.

A distinguishing characteristic of the U.S. stock-market rally was the small number of issues powering the advance. While the "Magnificent 7" – the seven largest stocks in the S&P 500 by market value – in some cases more than doubled, most stocks lagged the index's returns significantly. The S&P 500 Index and some benchmarks in Europe reached near-record levels during the period.

The Fund's equity positions had a positive impact on portfolio performance, led by the RBC QUBE Global Equity Fund.

An economic slowdown appears to be underway, with businesses and consumers feeling the drag of higher interest rates and two years of exceptionally high inflation. The portfolio manager continues to look for a mild contraction in the U.S., Canada, the UK and the eurozone during the first half of 2024, although pathways to an economic soft landing are evident and the odds of such an outcome are improving as inflation moderates and the cost of borrowing declines.

Against this backdrop, the portfolio manager believes that central banks are likely to cut their benchmark interest rates at some point over the next year, setting up a more positive backdrop for bond returns. Given the balance of risks and opportunities against both short-term and long-term investment horizons, the portfolio manager added to the Fund's fixed-income allocation over the past quarter, boosting the bond weight above neutral.

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