Attachment 1A

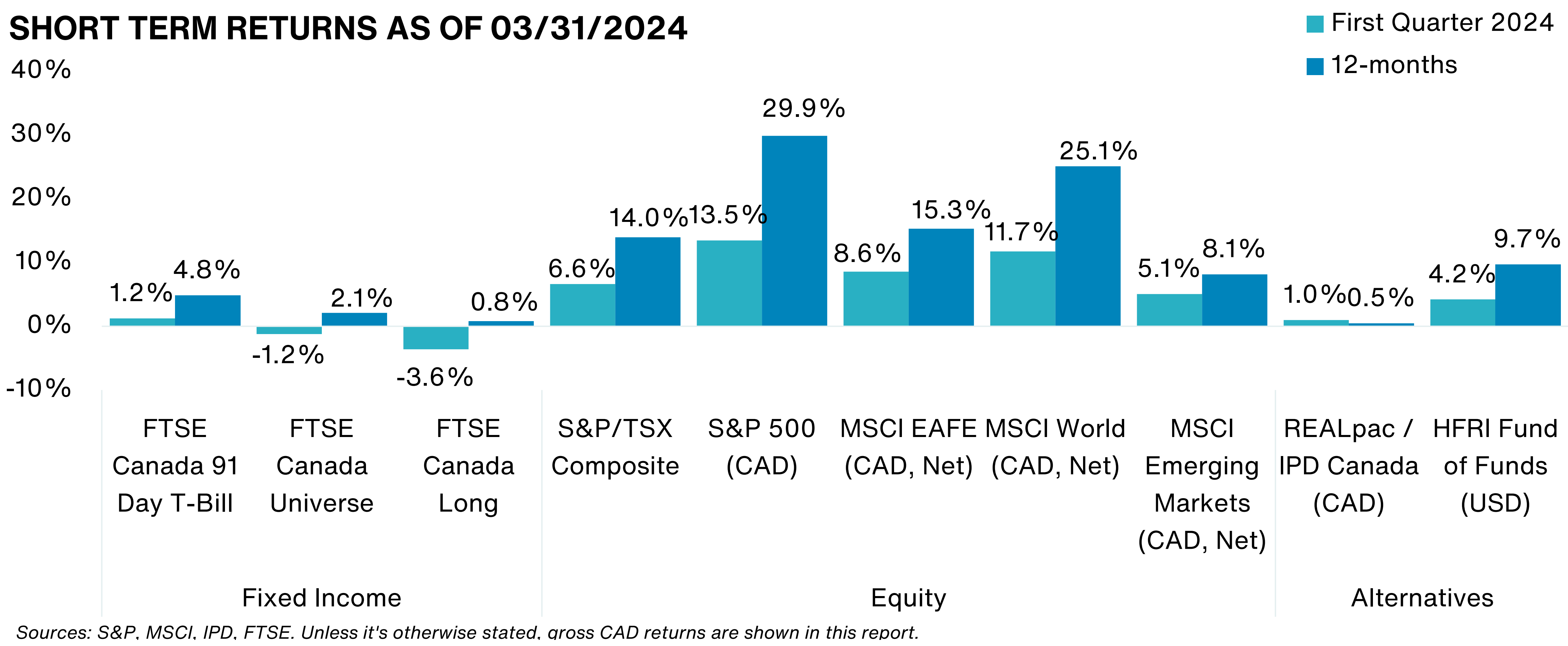
Discussion Guide

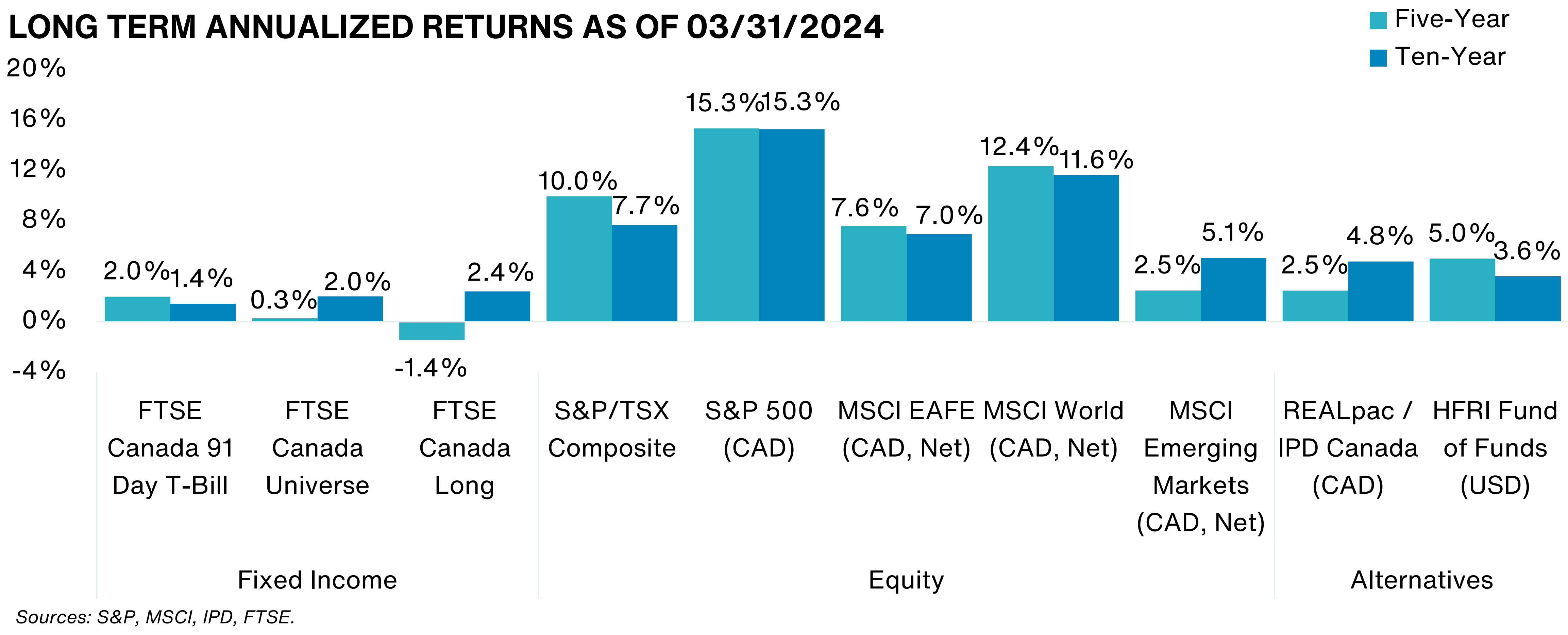
City of Toronto (Investment Board)

2024 Q1

Table of Contents

Capital Markets Overview



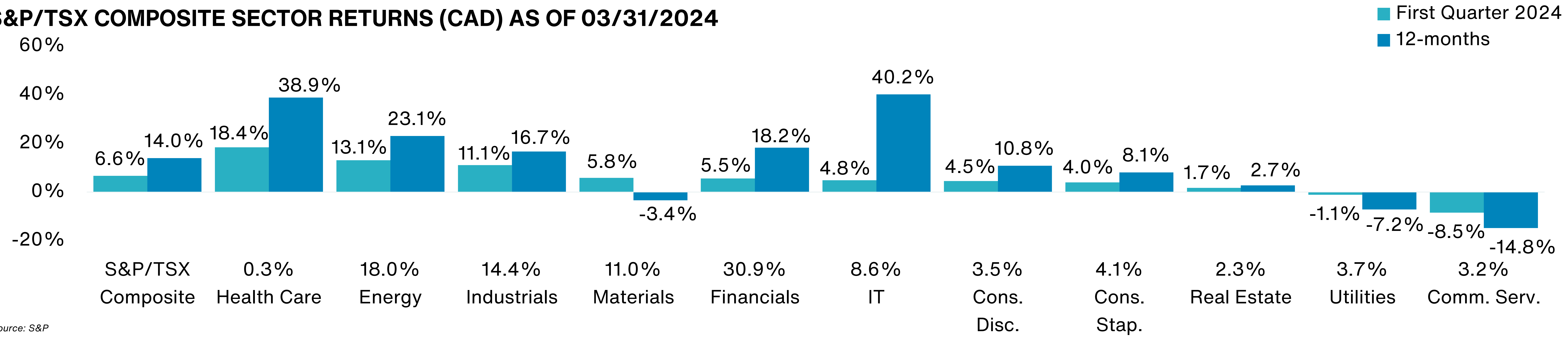


- In Q1 2024, the global equity markets appreciated significantly. The S&P 500 Index surpassed the 5,000 level for the first time, driven by a positive outlook on a solid earnings season, easing inflation data, signs of economic resilience, and rallies from the tech giants. The MSCI World Index rose 10.1% in local currency terms and 11.7% in Canadian dollar (CAD) terms.
- The Bank of Canada (BoC) held its benchmark interest rate at 5% but continued its policy of quantitative tightening. Governing Council officials indicated it is still too early to consider lowering the policy interest rate and members want to see more evidence of further and sustainable slowdown in core inflation.
- The U.S. Federal Reserve (Fed) kept its interest rate unchanged at 5.25%-5.5%. The Federal Open Market Committee (FOMC) similarly stated that the committee does not expect it will be appropriate to reduce the target range until it has gained greater confidence that inflation is moving sustainably towards 2%. According to the latest Fed “dot plot”, the FOMC members see three quarter-point cuts this year.
- The Bank of England (BoE) kept its interest rate stable at 5.25% for the fifth consecutive meeting. The Monetary Policy Committee (MPC) voted eight to one to maintain the current interest rate. The MPC indicated that monetary policy will need to remain restrictive for sufficiently long to return inflation to the 2% target sustainably in the medium term.
- The European Central Bank (ECB) kept its interest rate unchanged at an all-time high of 4.0% as it lowered its annual inflation forecast. The Governing Council (GC) is determined to ensure that inflation returns to its 2% medium-term target in a timely manner. Based on its current assessment, the GC considers restricting key ECB interest rates for a sufficiently long duration, will make a substantial contribution to this goal. The GC’s future decisions will ensure that policy rates will be set at sufficiently restrictive levels for as long as necessary.
- The Bank of Japan (BoJ) ended its era of negative interest rates by raising its interest rate to 0-0.1% from the previous - 0.1%, becoming the last central bank to end using negative interest rates. The BoJ Governor Kazuo Ueda said, “It is important to maintain accommodative financial conditions even as we carry out a normal monetary policy”.

Capital Markets Overview

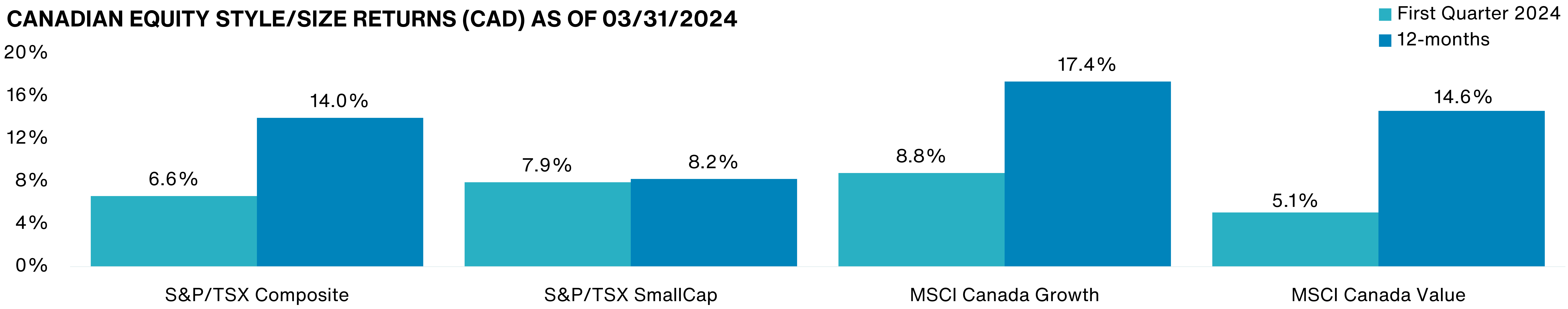
Canadian Equity

S&P/TSX COMPOSITE SECTOR RETURNS (CAD) AS OF 03/31/2024



Source: S&P

CANADIAN EQUITY STYLE/SIZE RETURNS (CAD) AS OF 03/31/2024



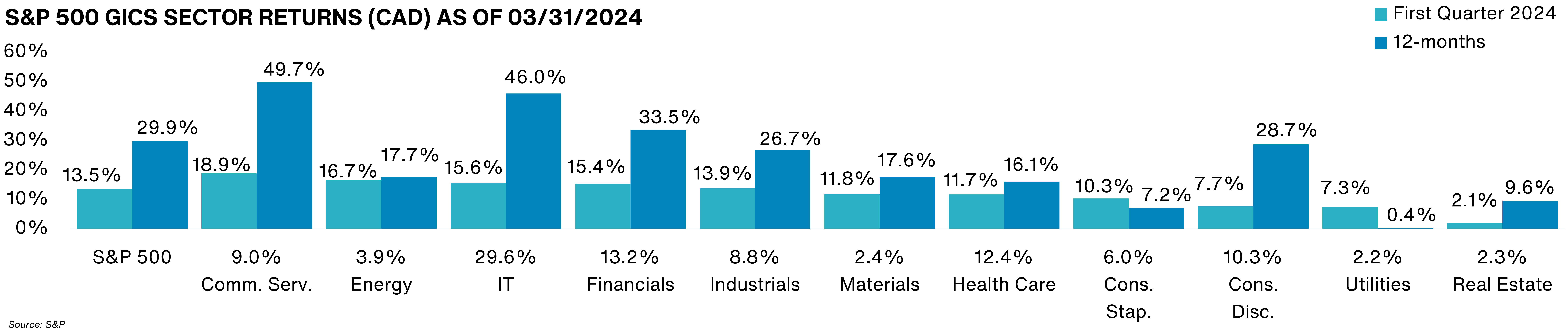
Source: S&P, MSCI

Past performance is no guarantee of future results. Indices cannot be invested in directly. Unmanaged index returns assume reinvestment of any and all distributions and do not reflect fees and expenses.

Capital Markets Overview

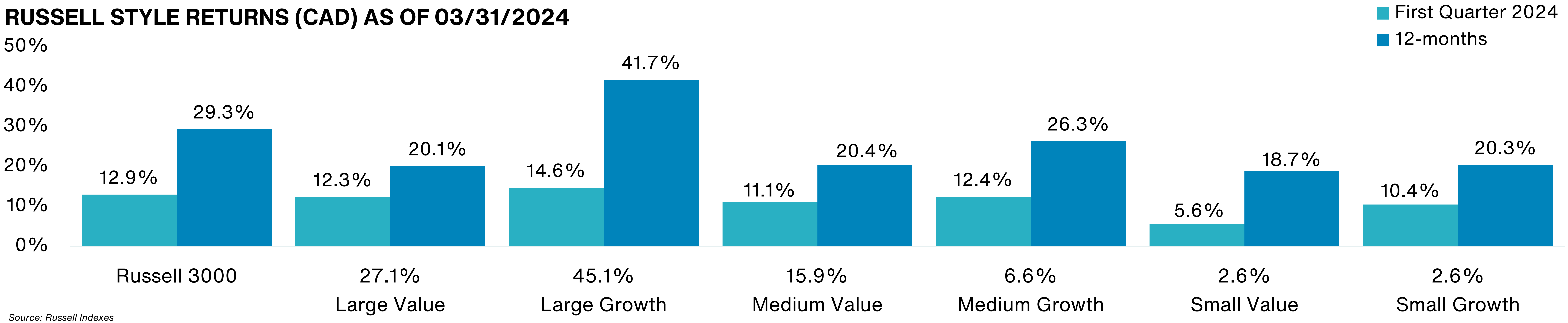
U.S. Equity

S&P 500 GICS SECTOR RETURNS (CAD) AS OF 03/31/2024



Source: S&P

RUSSELL STYLE RETURNS (CAD) AS OF 03/31/2024



Source: Russell Indexes

AON

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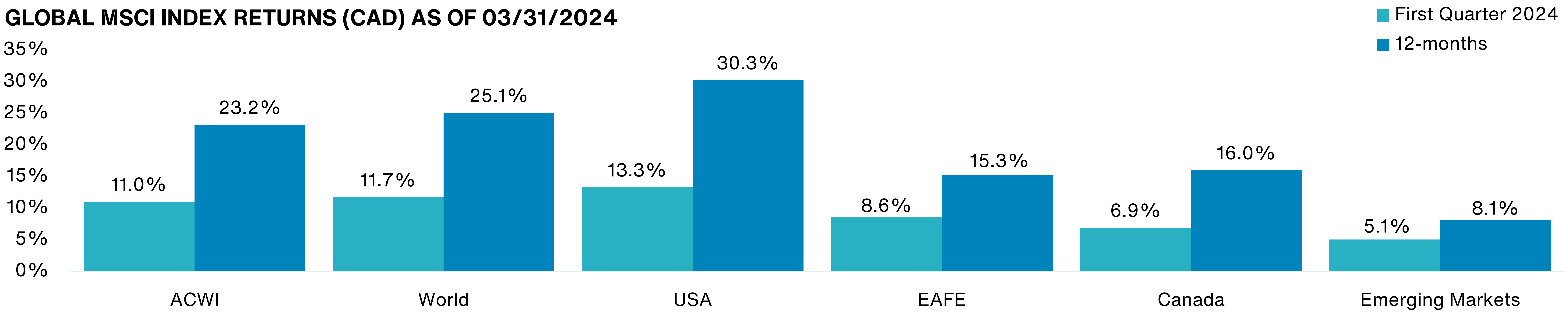
Capital Markets Overview

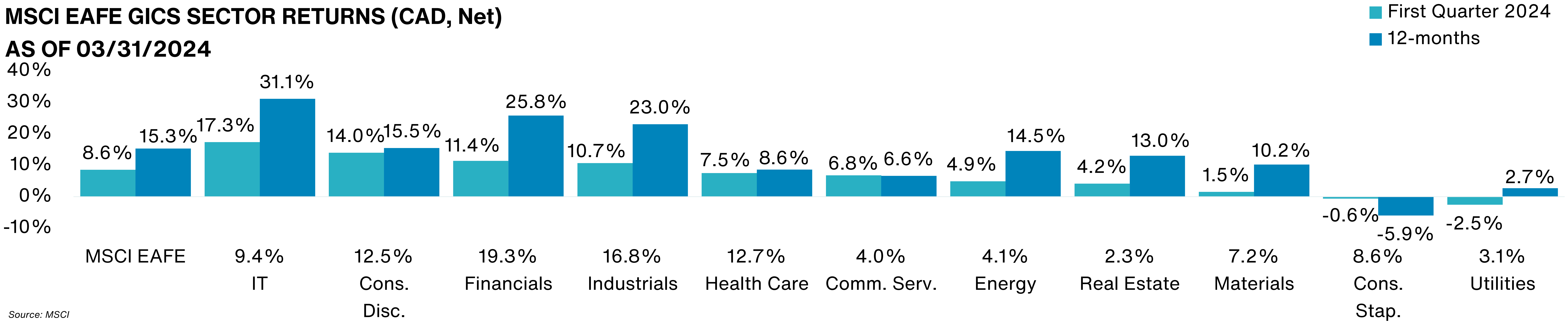
Global Equity

GLOBAL MSCI INDEX RETURNS (CAD) AS OF 03/31/2024



Source: MSCI. Gross returns shown for the MSCI Canada and USA indices, whilst net returns are shown for the other indices.

MSCI EAFE GICS SECTOR RETURNS (CAD, Net) AS OF 03/31/2024



Source: MSCI

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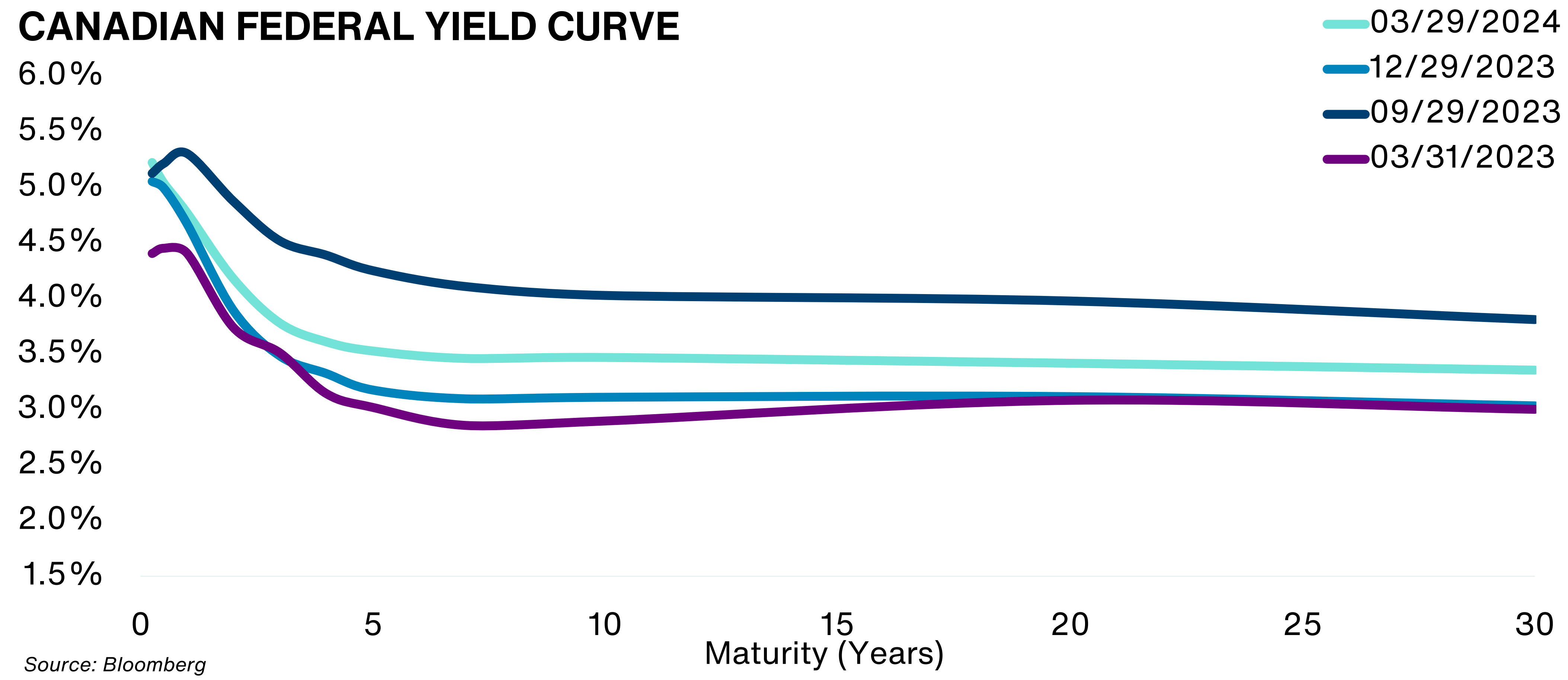
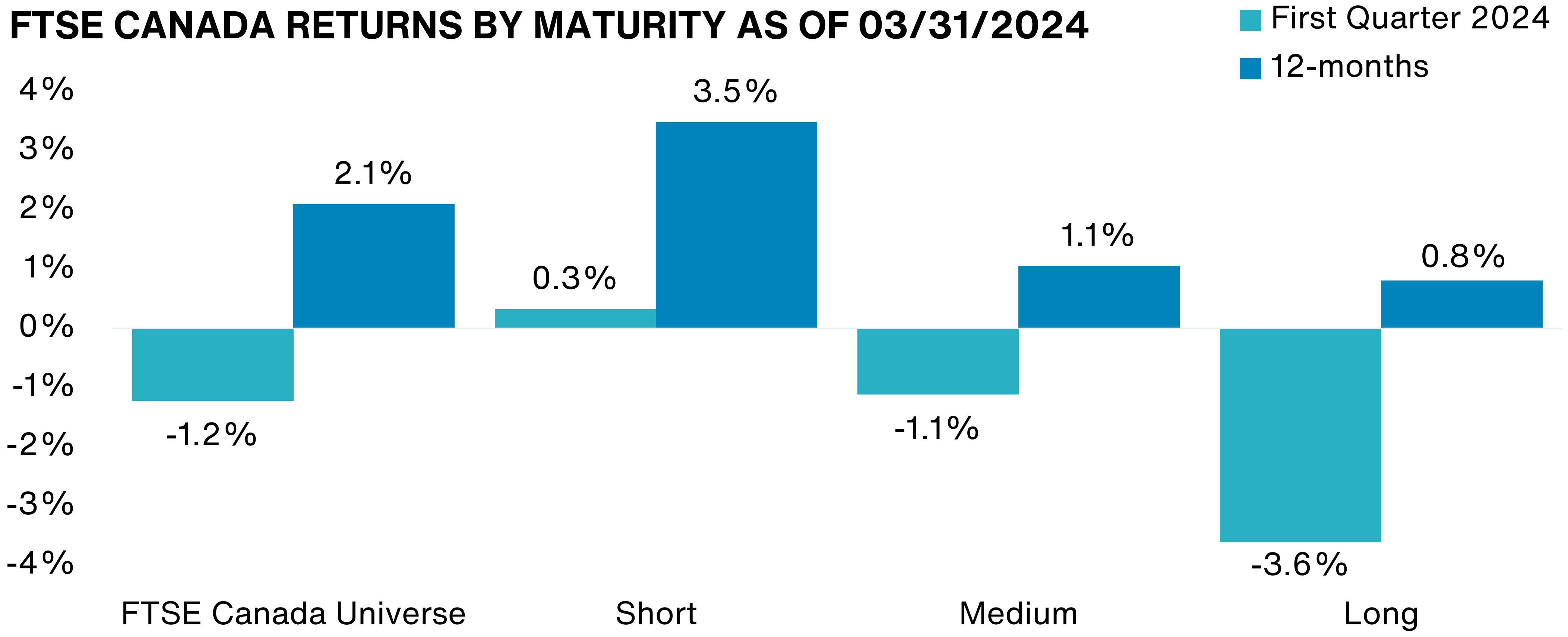
Capital Markets Overview

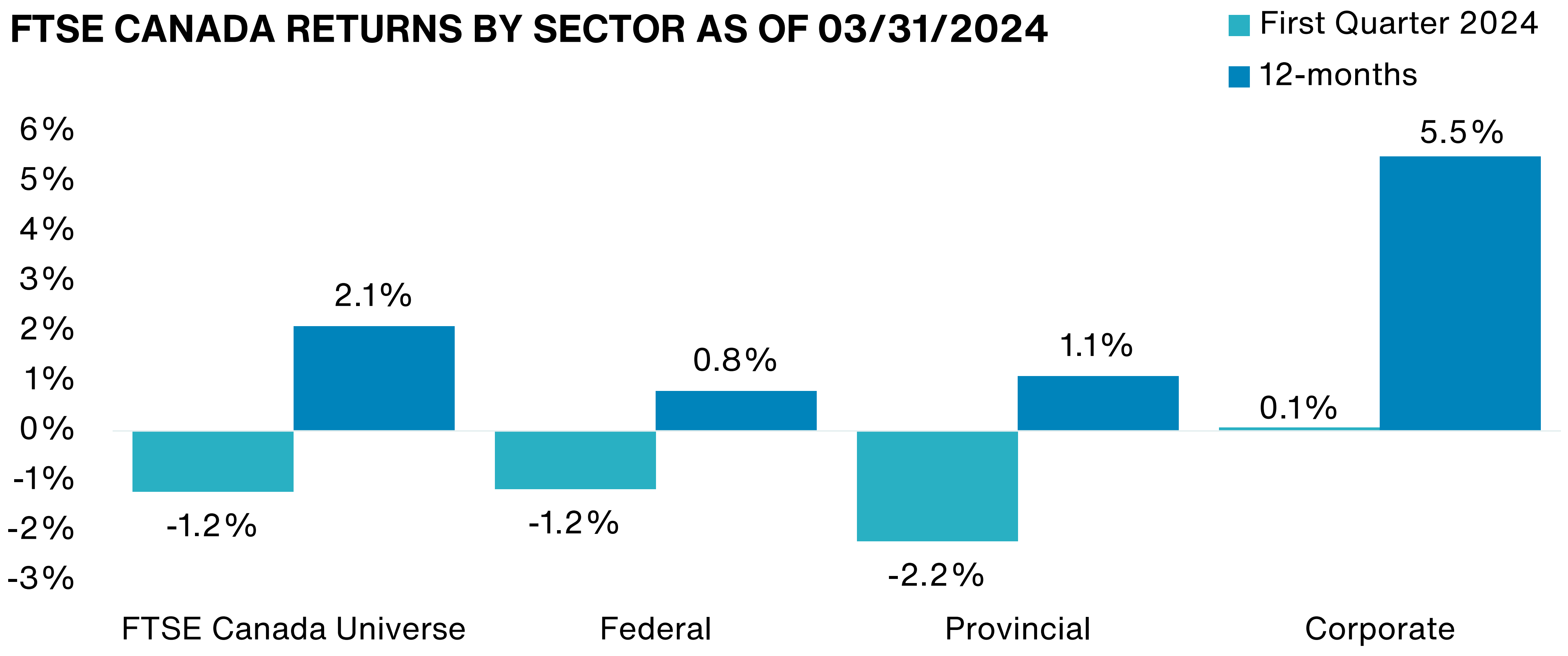
Fixed Income



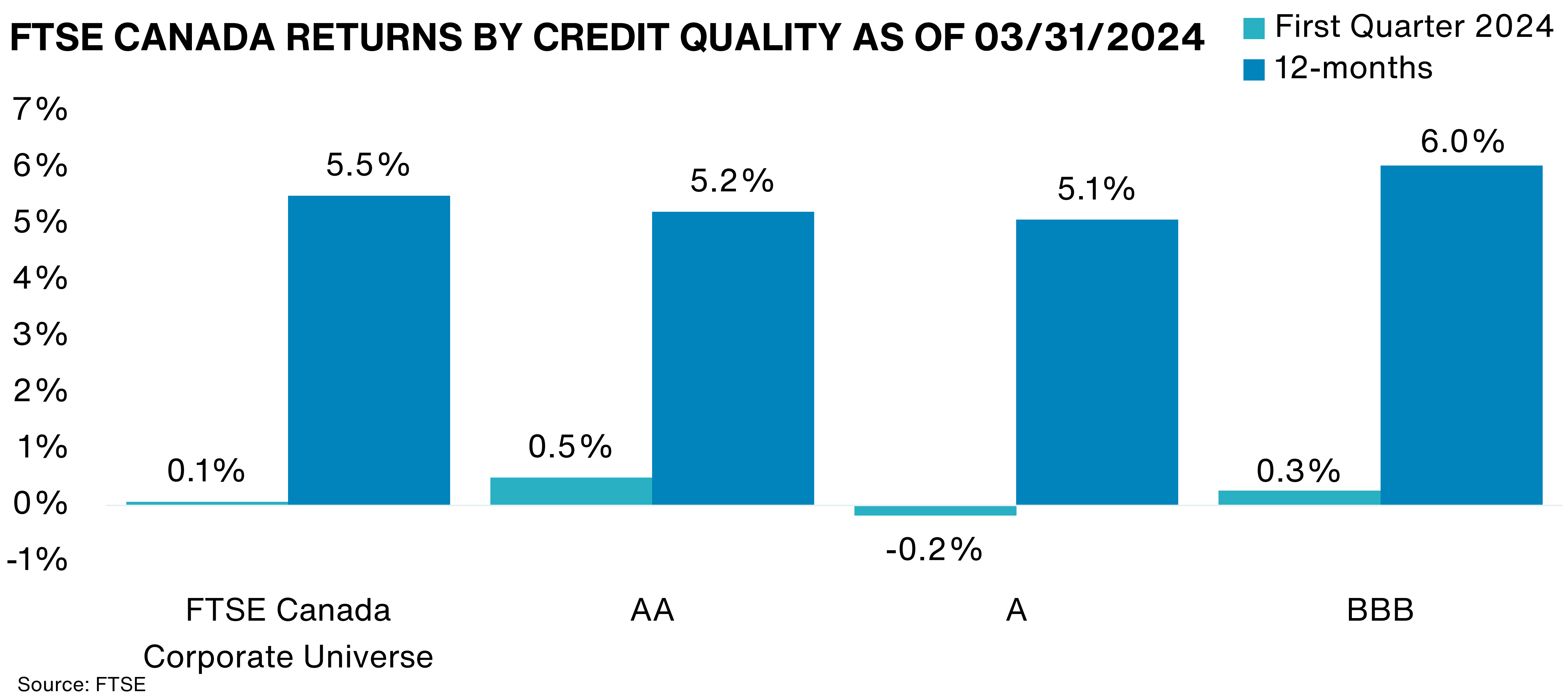
Source: Bloomberg



Source: FTSE



Source: FTSE



Source: FTSE

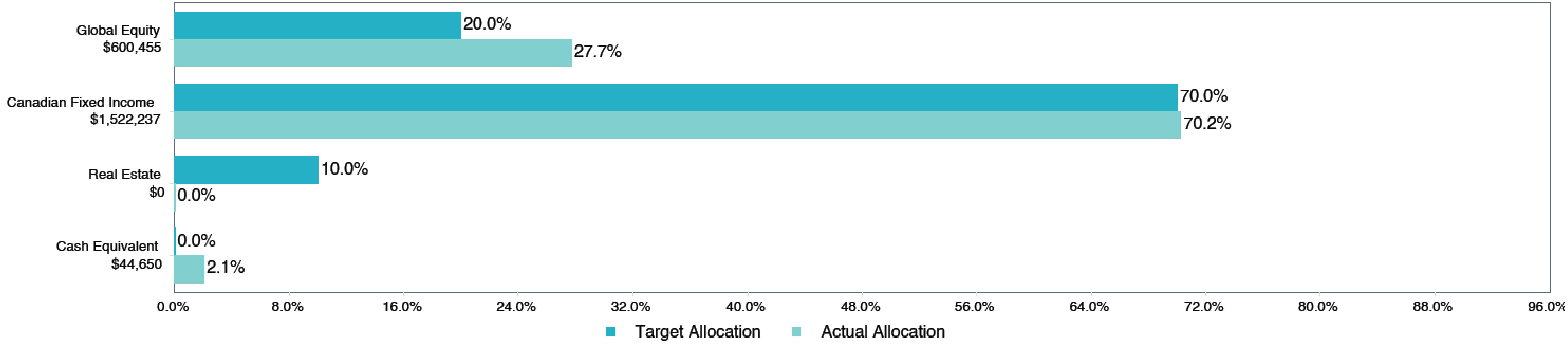
Past performance is no guarantee of future results. Indices cannot be invested in directly. Unmanaged index returns assume reinvestment of any and all distributions and do not reflect fees and expenses.

Executive Summary – Sinking Fund and Long-Term Fund

	Performance (%)			Market value ($000)	Fees (bps)	Objective Met	Action Required
	Quarter	1 Year	5 Year				
Sinking Fund Return	0.3	6.1	-	2,176,342	13.2	**N/A**	No
Sinking Fund Benchmark	0.3	5.9	-				
Value Added	0.0	0.2	-				
Long Term Fund Return	1.9	6.8	-	4,083,886	15.6	**N/A**	No
Long Term Fund Benchmark	1.5	6.8	-				
Value Added	0.4	0.0	-				

Asset Allocation Compliance

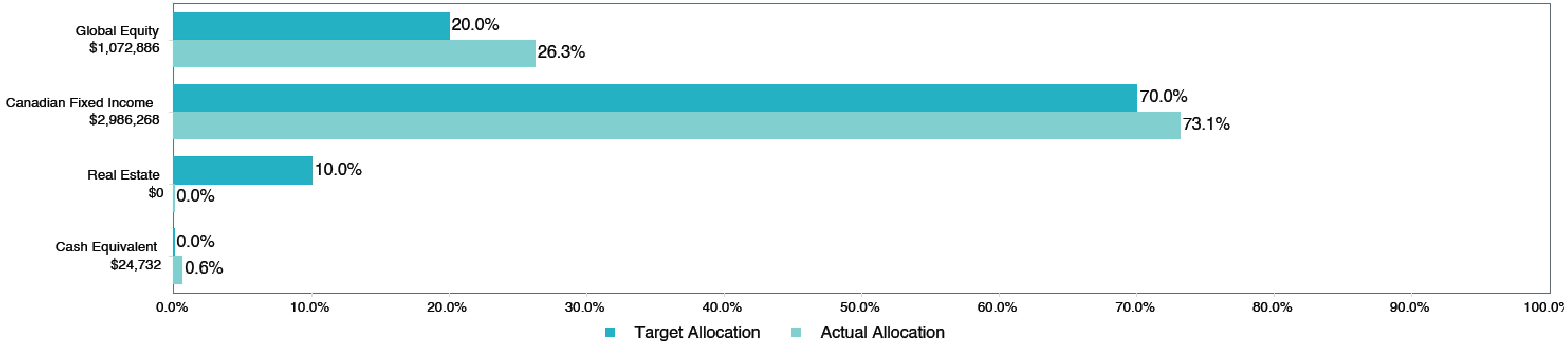
As of 31 March 2024 ($000)



	Market Value ($000)	Market Value (%)	Target Allocation (%)	Differences (%)	Minimum Allocation (%)	Maximum Allocation (%)	Within Range
Global Equity	600,455	27.7	20.0	7.7	0.0	30.0	Yes
Canadian Fixed Income	1,522,237	70.2	70.0	0.2	50.0	100.0	Yes
Real Estate	-	0.0	10.0	-10.0	0.0	10.0	Yes
Cash Equivalent	44,650	2.1	0.0	2.1	0.0	5.0	Yes
Total Fund	**2,167,342**	**100.0**	**100.0**	**0.0**			

Asset Allocation Compliance

As of 31 March 2024 ($000)



	Market Value ($000)	Market Value (%)	Target Allocation (%)	Differences (%)	Minimum Allocation (%)	Maximum Allocation (%)	Within Range
Global Equity	1,072,886	26.3	20.0	6.3	0.0	30.0	Yes
Canadian Fixed Income	2,986,268	73.1	70.0	3.1	50.0	100.0	Yes
Real Estate	-	0.0	10.0	-10.0	0.0	10.0	Yes
Cash Equivalent	24,732	0.6	0.0	0.6	0.0	5.0	Yes
Total Fund	**4,083,886**	**100.0**	**100.0**	**0.0**			

Strategy Performance

Strategy	Rating	Value Added (%) Quarter	SI*	Objective Met	Above Median 5 Years	Action Required
Addenda LDI	Buy	0.1	0.1	n/a	n/a	No
Fiera LDI	Buy	0.0	0.3	n/a	n/a	No
CC&L Core Fixed Income	Buy	0.3	0.5	n/a	n/a	No
Leith Wheeler Core Fixed Income	Buy	0.3	0.6	n/a	n/a	No
Pier 21 Global Equity	Buy	-2.4	-0.2	n/a	n/a	No
Oakmark Global Equity	Buy	-3.6	-3.3	n/a	n/a	No
Fiera Global Focused Equity	Buy	-0.2	0.9	n/a	n/a	No
LGIM Multi-Factor Global Equity	Buy	-1.5	-2.4	n/a	n/a	No

*Since Inception Dates:
- Addenda LDI: 7/1/2019
- Fiera LDI: 7/1/2019
- CC&L Core Fixed Income: 7/1/2019
- Leith Wheeler Core Fixed Income: 7/1/2019
- Pier 21 Global Equity: 11/1/2019
- Oakmark Global Equity: 11/1/2019
- Fiera Global Focused Equity: 2/19/2020
- LGIM Multi-Factor Global Equity: 12/14/2020

Manager Updates

Manager Name	Quarterly Update	ESG Rating
Addenda	• Ian McKinnon was promoted to Chief Investment Officer • Charles Leblanc was promoted to Chief Operating Officer	Integrated
CC&L	• David George, Director, Portfolio Manager, & Co-Head of Fixed Income, has announced that he will be transitioning towards his retirement over the next two years. • TJ Sutter has been promoted to Co-Head of the fixed income team.	Integrated
Leith Wheeler	• No significant updates impacting City of Toronto	Advanced
Pier 21 (C. Worldwide)	• No significant updates impacting City of Toronto	Integrated
LGIM	• No significant updates impacting City of Toronto	Advanced
Fiera	• There were several personnel changes in Q1 2024, no significant updates impacting City of Toronto	Integrated

ESG Rating Scale

The rating assesses the integration of financially material ESG risk factors into the investment decision-making process.

The ESG factor is assigned a rating and can be interpreted as follows.

Rating	Description
Advanced (A)	The fund management team demonstrates an advanced awareness of potential ESG risks in the investment strategy. The fund management team can demonstrate advanced processes to identify, evaluate and potentially mitigate these risks across the entire portfolio.
Integrated (I)	The fund management team has taken appropriate steps to identify, evaluate and mitigate potential financially material ESG risks within the portfolio.
Limited (L)	The fund management team has taken limited steps to address ESG considerations in the portfolio.
Not applicable (N/A)	ESG risks and considerations are not applicable to this strategy, for example, on the grounds of materiality or asset class relevance.

Thought Leadership Highlight

Investing in Infrastructure

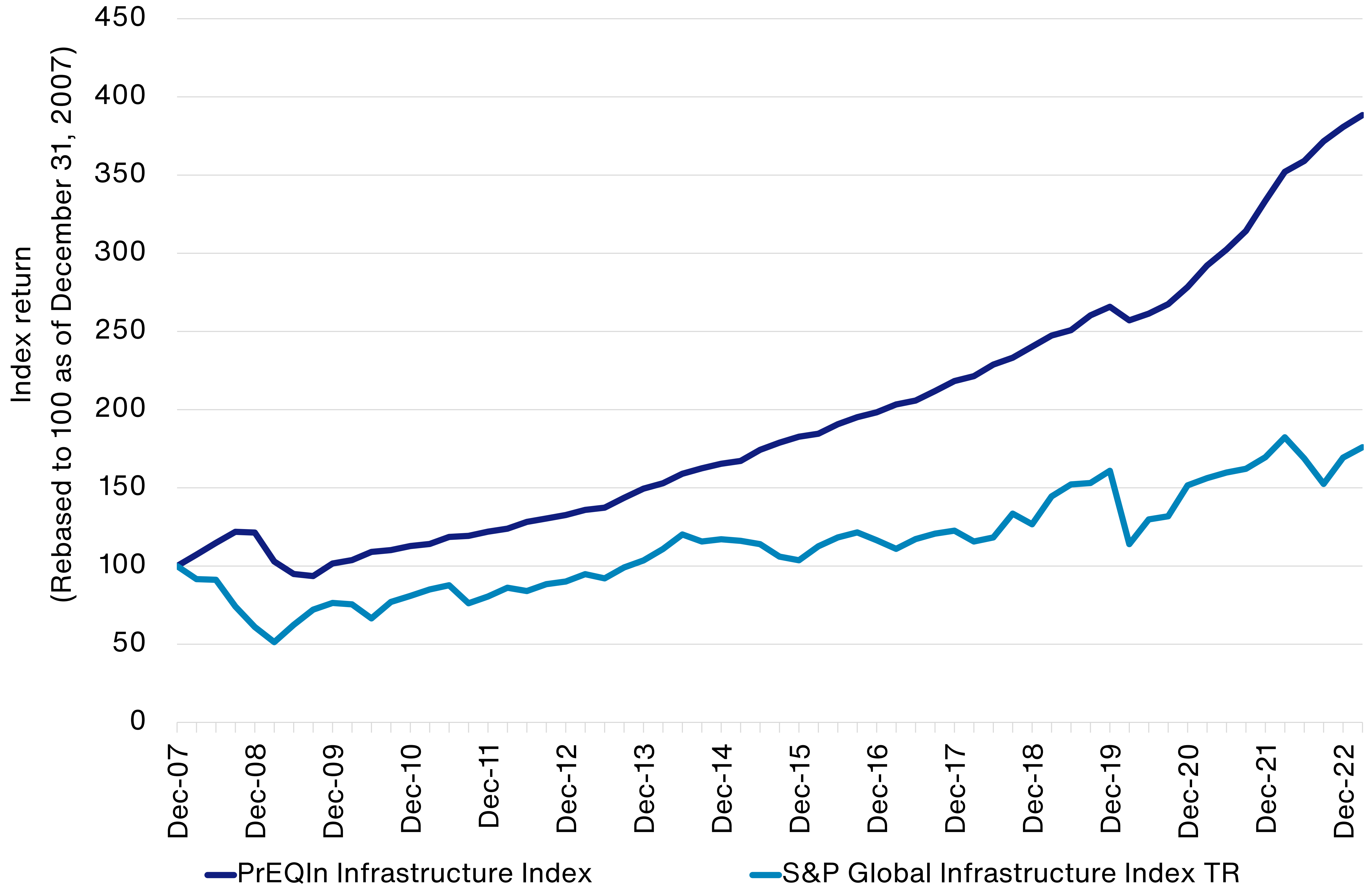
Click the image to read the article

Thought Leadership

Investing in Infrastructure

The Opportunity

- Infrastructure assets are long-life, hard assets serving as the backbone of global economies and societies.
- The assets provide essential services, are resilient to economic cycles, have high barriers to entry and high cash flows.
- Cash flows are underpinned by a long term and often inflation-linked contractual or regulatory framework.
- Infrastructure can be implemented through private infrastructure or public vehicles.
- Private vehicles are Aon's recommended approach as they are a pure play and have a large and diverse opportunity set.
- Private infrastructure outperformed public infrastructure on a total return basis (see chart at right).



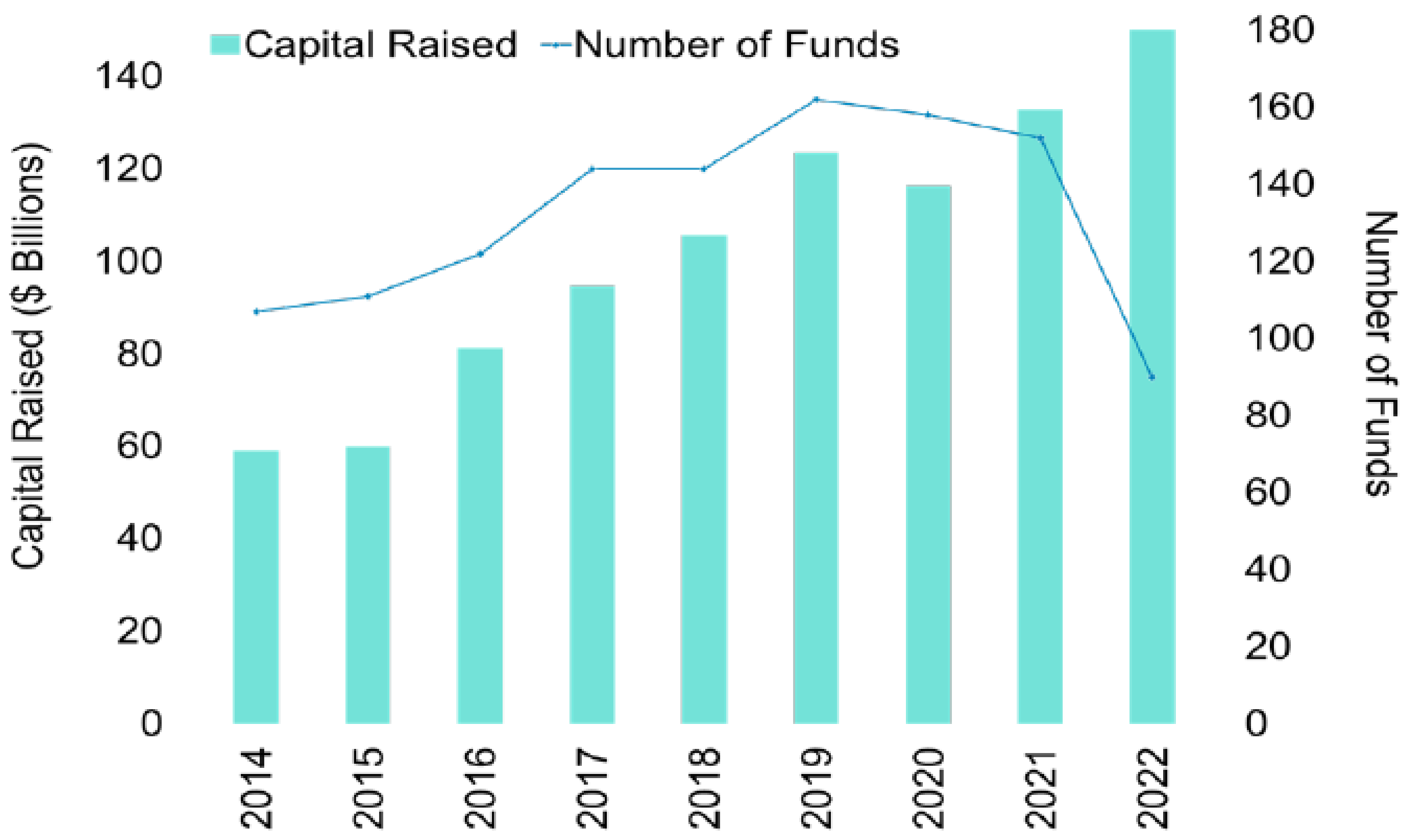
Source: Preqin Pro

Thought Leadership

Investing in Infrastructure

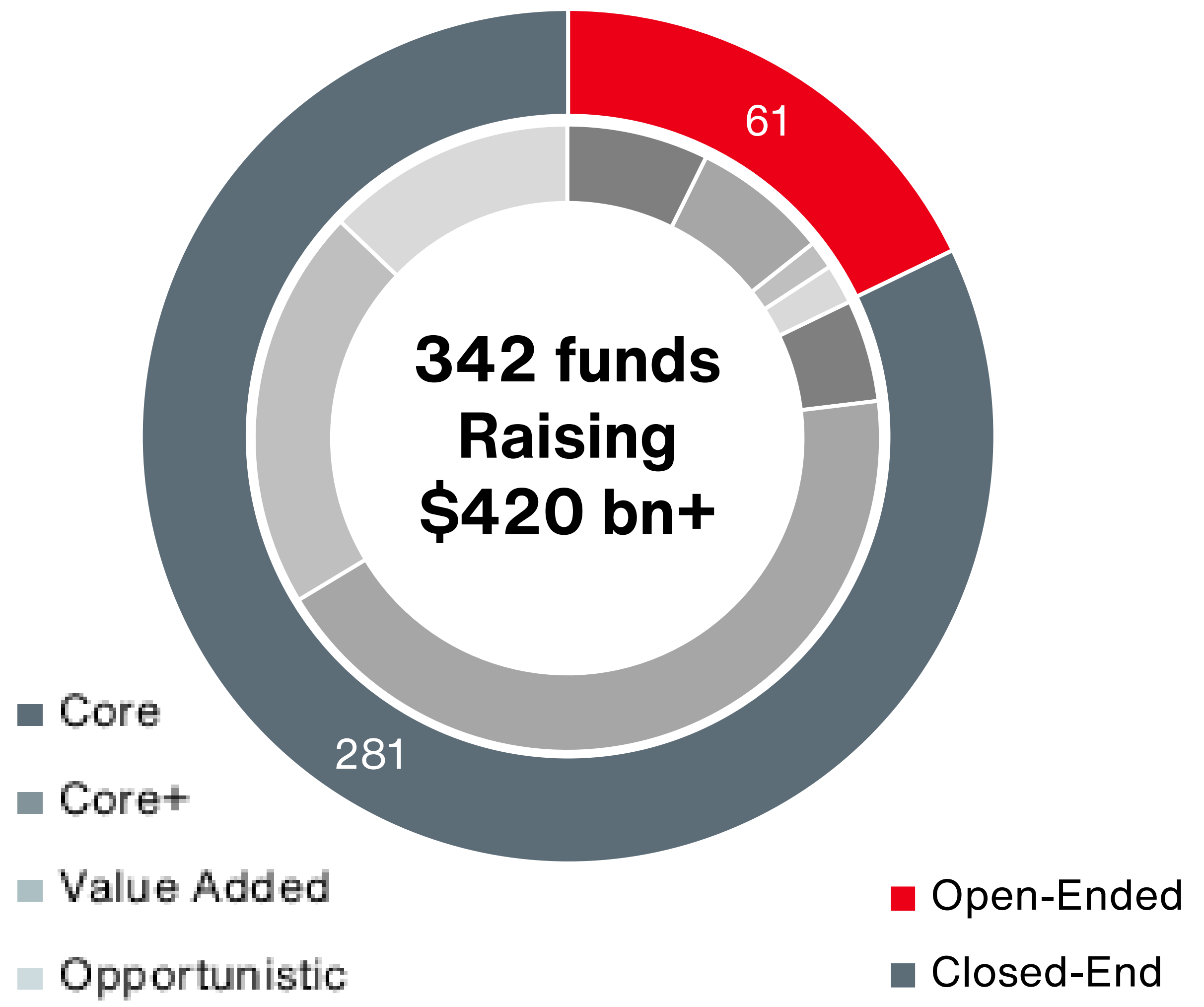
The Growth

- Infrastructure assets under management (AUM) more than quadrupled over 10 years from just over $220 billion (USD) in 2011 to over $1.1 trillion (USD) at the end of 2022.
- On average, over 100 individual funds are raised annually by over 70 managers across core, core+, value-add, and opportunistic infrastructure strategies.



The Players

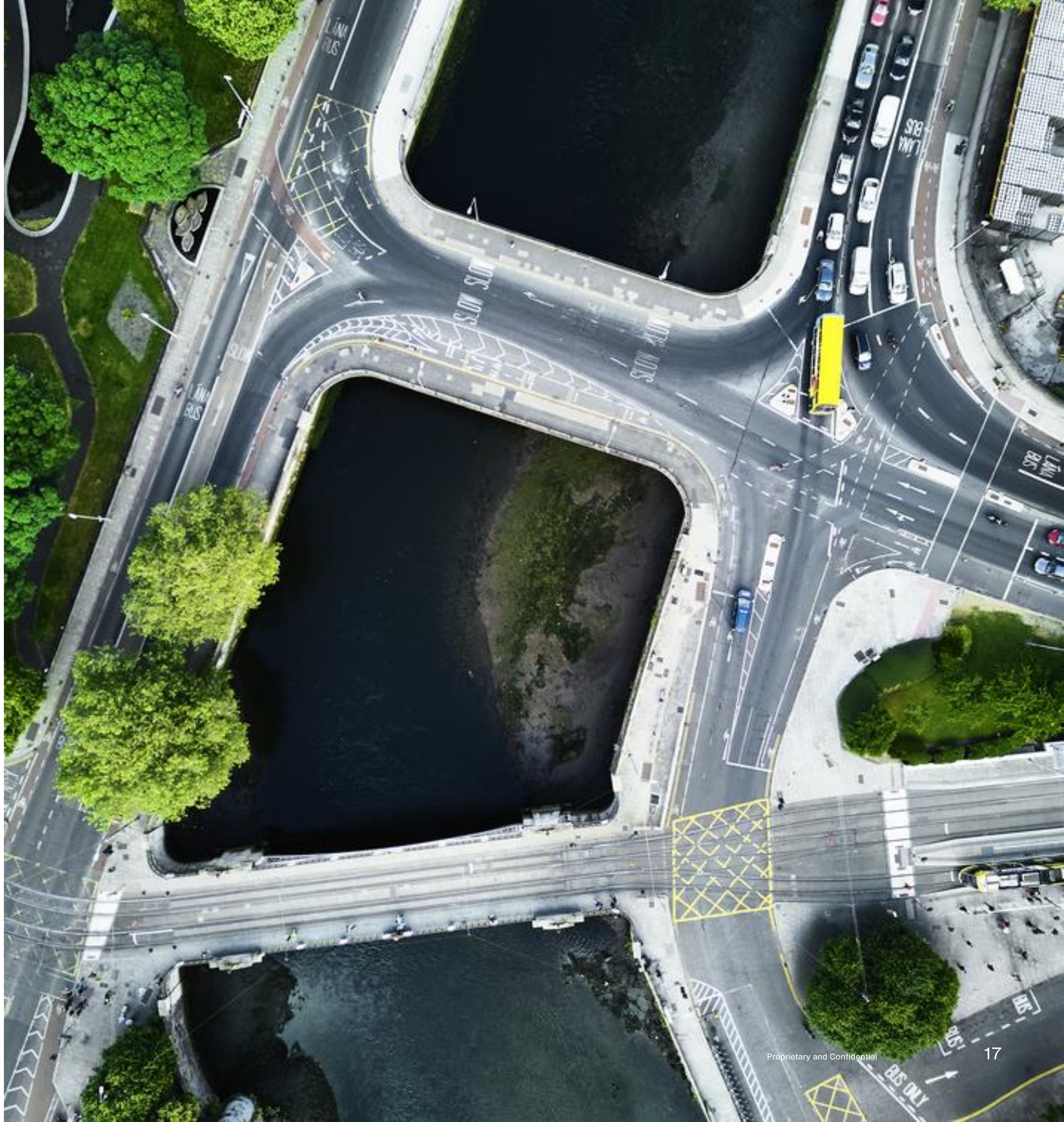
- Number of open-end funds is limited, with 35 institutional quality funds with established track records.
- As of Q3 2023, there were an estimated 342 funds in the market seeking more than $420 billion in aggregate commitments. The majority are non-core strategies including core+, value-add, and opportunistic risk funds.



Thought Leadership
Investing in Infrastructure

The Program

- Goal: build a well-diversified program across risk, sectors, geographies, and vintage years.
  - Include infrastructure as part of a “Real Assets” allocation, given its similarity to real estate and other private assets.
  - Set target policy allocations to open-end and closed-end real assets to ensure portfolio liquidity.
  - Broad guideline ranges between infrastructure, real estate, and other real assets to provide enhanced flexibility.
- Aon recommends using open-end vehicles for building core infrastructure exposure for greater portfolio and valuation visibility, lower fee burden and higher liquidity.
- Aon recommends closed-end vehicles for non-core infrastructure exposures as the limited life structure suits such strategies.
  - Closed-end funds invest over a 4-5-year period and exit in 8-12 years.



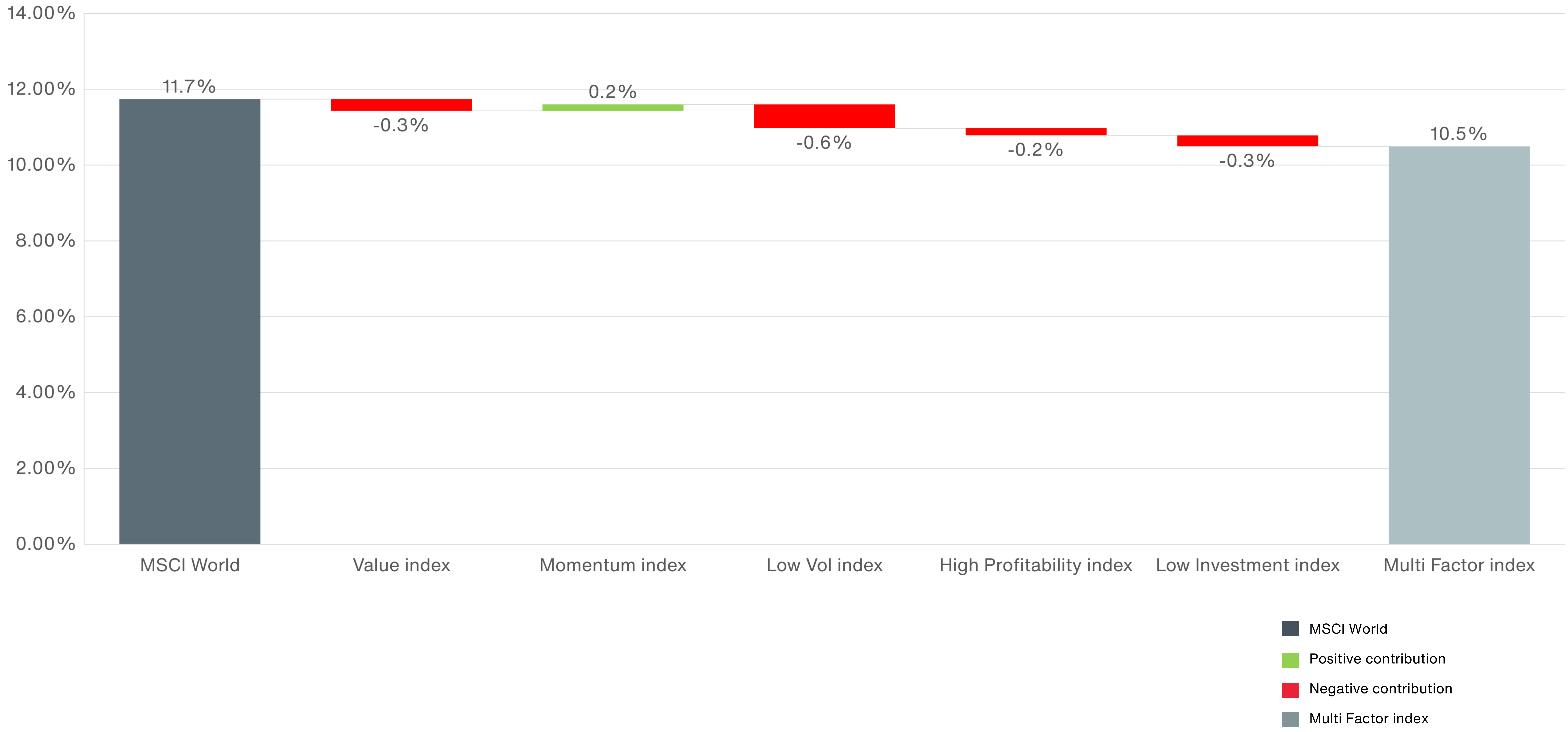
A

Appendix
SciBeta Multifactor Benchmark Performance Attribution

AON

Performance attribution – Scibeta Multi-factor benchmark

1 Quarter – As of March 31, 2024

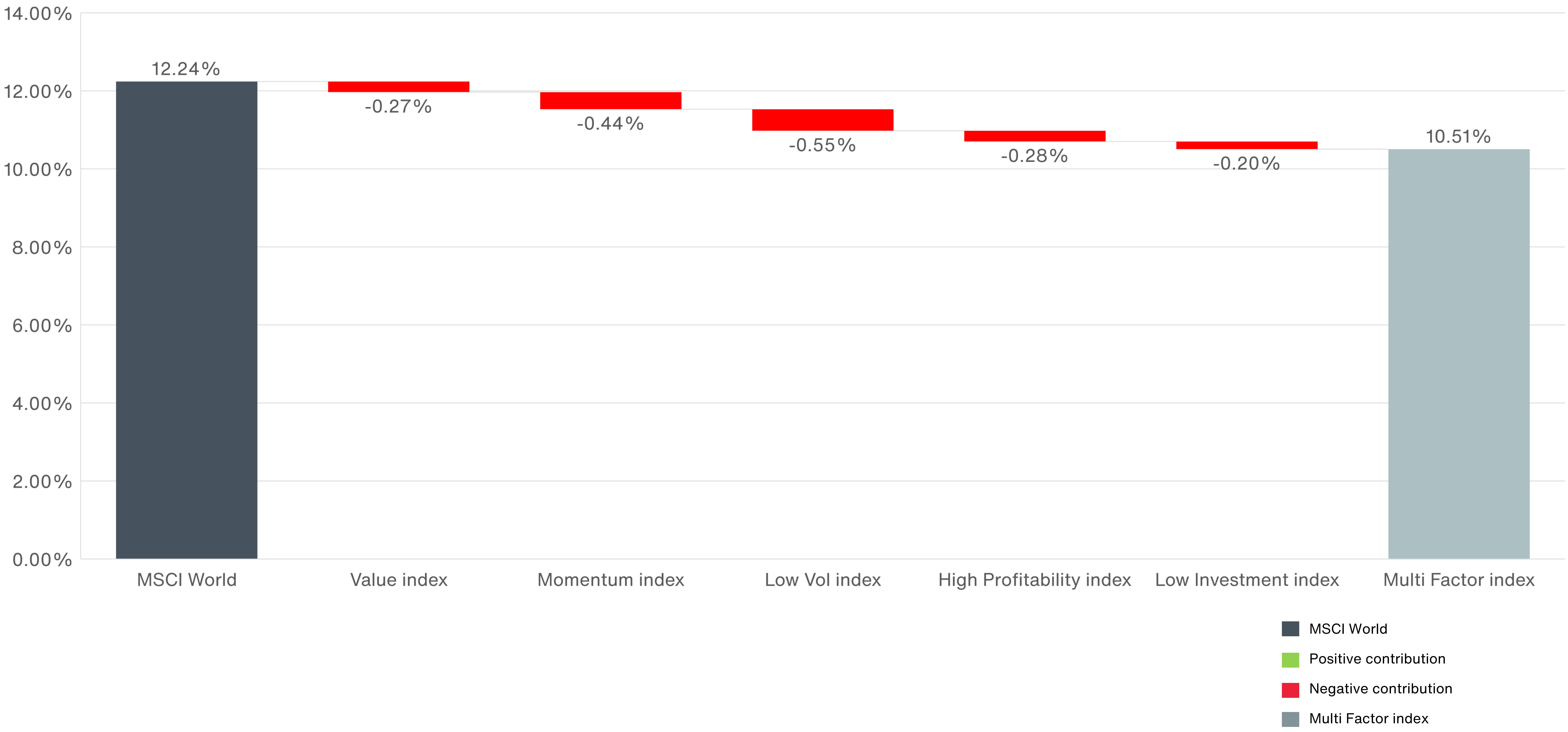


Performance attribution – Scibeta Multi-factor benchmark

1 Year – As of March 31, 2024

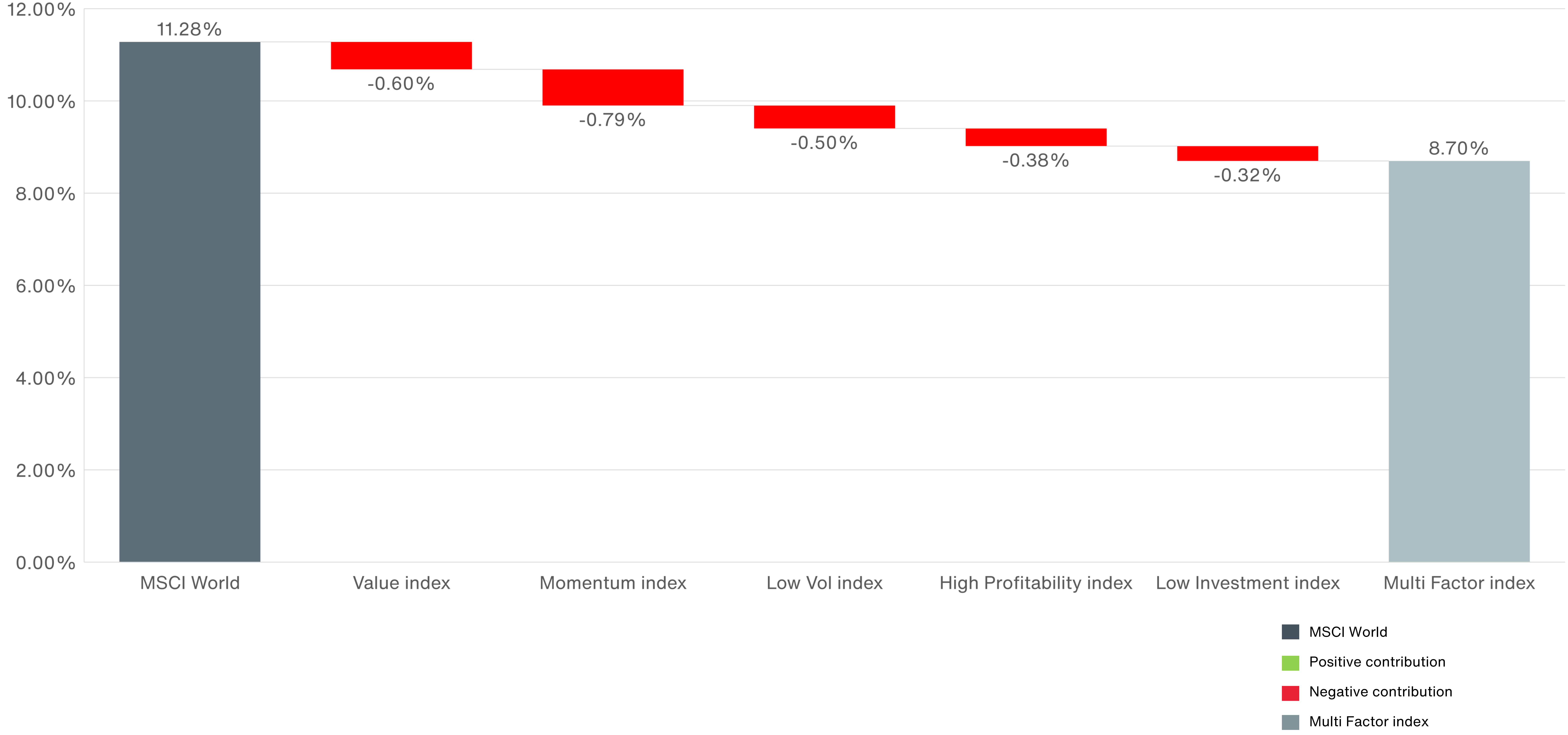
Performance attribution – Scibeta Multi-factor benchmark

2 Year – As of March 31, 2024



Performance attribution – Scibeta Multi-factor benchmark

3 Year – As of March 31, 2024



Performance attribution – Scibeta Multi-factor benchmark

Since Inception* – As of March 31, 2024

The since inception date is Jan.06, 2021

B

Appendix
Asset Allocation Views

Key Market Issues

What do higher rates for longer mean for risk assets?

Money markets have gone from pricing seven Fed rate cuts to 1.5, but risk assets have focused on the better growth outlook – Can this continue?

Concerns grow on fiscal debt levels.

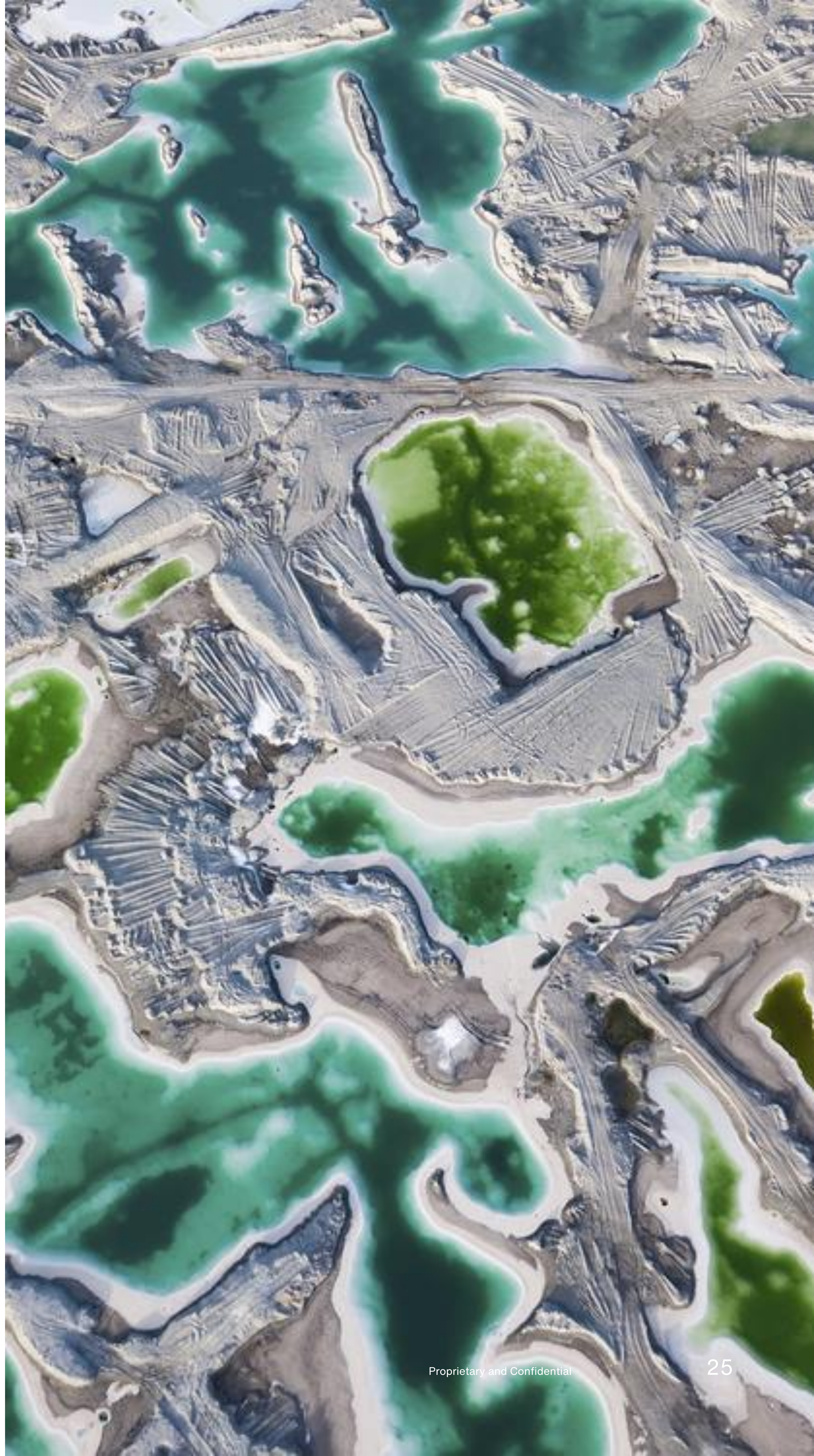
U.S. fiscal policy, in particular, remains stimulative. Could bond markets take fright?

Are equities expensive versus government bonds?

Our longer-term capital market assumptions suggest that the rewards for holding equities versus government bonds will be compressed. Will investors continue to ignore this?

For more information on Aon's Views

Market outlook (aon.com)



Core Views

U.S. 2024 growth slower than 2023 but still above trend

Advance estimates of Q1 U.S. growth at 1.6% are slower than we expected and slower than H2 2023. However, other indicators including the labour market suggest economic growth is still running above trend making a substantial rate cutting cycle difficult. The Fed's preferred measure of inflation core PCE also remains too high.

Inflation and GDP growth slowdowns hint at some value in government bonds

Our view is that government bond yields will fall over the next year or two as inflation and policy rates fall. However, another rollercoaster ride, after the big moves over the last year, looks entirely possible. We suspect that policy interest rates will fall moderately with high government bond supply in the U.S. and other countries another headwind.

Credit spreads are too tight

Although yield levels are reasonable, we think that spreads are too tight to generate an attractive excess return from credit. We think room for substantial spread compression from these levels is limited but any adverse shock will see spreads widen.

Equity challenges remain

The effects of monetary and liquidity tightening and less valuation support from a falling equity risk premium will challenge equities.

Actions

View Shifts

↑ Within return-seeking fixed income, we are upgrading our bank loan's view to become neutral with high yield bonds and upgrading local emerging market debt. However, we remain cautious on return-seeking fixed income overall.

↑ We are upgrading our EAFE view as the tailwinds from improving economic conditions grow while persistently higher interest rates may pose a challenge to the technology-heavy U.S. market.

↕ We are also upgrading our value equity style view and downgrading our low volatility equity style view in light of higher-for-longer interest rates, resilient economic activity and sticky inflation.

↑ We are upgrading our Canadian dollar view to neutral relative to the U.S. dollar, given recent weakness and improving tailwinds. We still prefer the euro, yen and emerging market currencies to the Canadian dollar, however.

Cross Asset Views

---	--	-	=	+	++	+++
		Equities				
			Core fixed income			
		Return-seeking fixed income				
					Liquid Alts*	

- Whilst we had expected fewer U.S. policy rate cuts this year than the market at the start of the year, there is a risk that there will be no rate cuts at all this year in the U.S. which will keep treasury yields higher for longer and put a base on how low Canadian yields can fall too. Furthermore, U.S. growth is continuing to be quite resilient, and we are seeing some signs of improving growth in the rest of the G7.

- We maintain our preference for Federal bonds over corporate bonds, however, given stretched credit spreads.

- Equity still looks to have a poorer return outlook than the liquid alternatives opportunity set, once equity market risks are taken into account. An overweight to certain liquid alternatives, such as insurance linked securities, combined with small underweights to traditional risk assets will achieve close to long-term target returns but at lower risk, in our view.

* Liquid alternative asset classes as shown on the next page.

Relative Asset Class Views*

Regional views

---	--	-	=	+	++	+++
			USA			
			Canada			
				EAFE		
				Emerging		

Core Fixed Income

---	--	-	=	+	++	+++
			Federal			
		Corporate				
			Provincial			

Alternatives

---	--	-	=	+	++	+++
				Active commodities		
				Alternative Risk Premia		
						Insurance-linked securities
					Diversifying hedge funds	
			Return seeking hedge funds			

Factor views

---	--	-	=	+	++	+++
		Low Vol.				
			Quality			
				Value		
			Growth			

Credit

---	--	-	=	+	++	+++
			USD EMD			
				Local EMD		
			Bank Loans			
				Selected ABS		
			US High Yield			

Currency views vs CAD

---	--	-	=	+	++	+++
				EUR		
			USD			
					JPY	
				EM		

*Asset class views are relative to others within the asset class and not relative to other asset types. There should be no read-across from equities to credit, for example.

Relative Equity Views*

Regional views

---	--	-	=	+	++	+++
			USA			
			Canada			
				EAFE		
				Emerging		

With persistently higher interest rates, we think that there are better risk-adjusted returns available outside of equities. However, we think that equity markets could continue to forge ahead in the near-term, which is why we recommend only small underweights relative to strategic targets. In terms of the regions, we have upgraded our view on EAFE equities relative to the U.S., as global growth looks set to bounce from here, giving a boost to industrial and manufacturing heavy sectors in the region.

Factor views

---	--	-	=	+	++	+++
		Low Vol.				
			Quality			
				Value		
			Growth			

We have upgraded our view on value equities and downgraded our view on low volatility equities in light of our more moderated outlook on global economic growth. With activity improving and yields set to remain high, we think that the improvement in returns for the financial, energy and industrials sectors will continue. However, we continue to acknowledge that the AI theme will likely remain an important driver of growth equities, making value outperformance patchy.

*Asset class views are relative to others within the asset class and not relative to other asset types. There should be no read-across from equities to credit, for example.

Equities

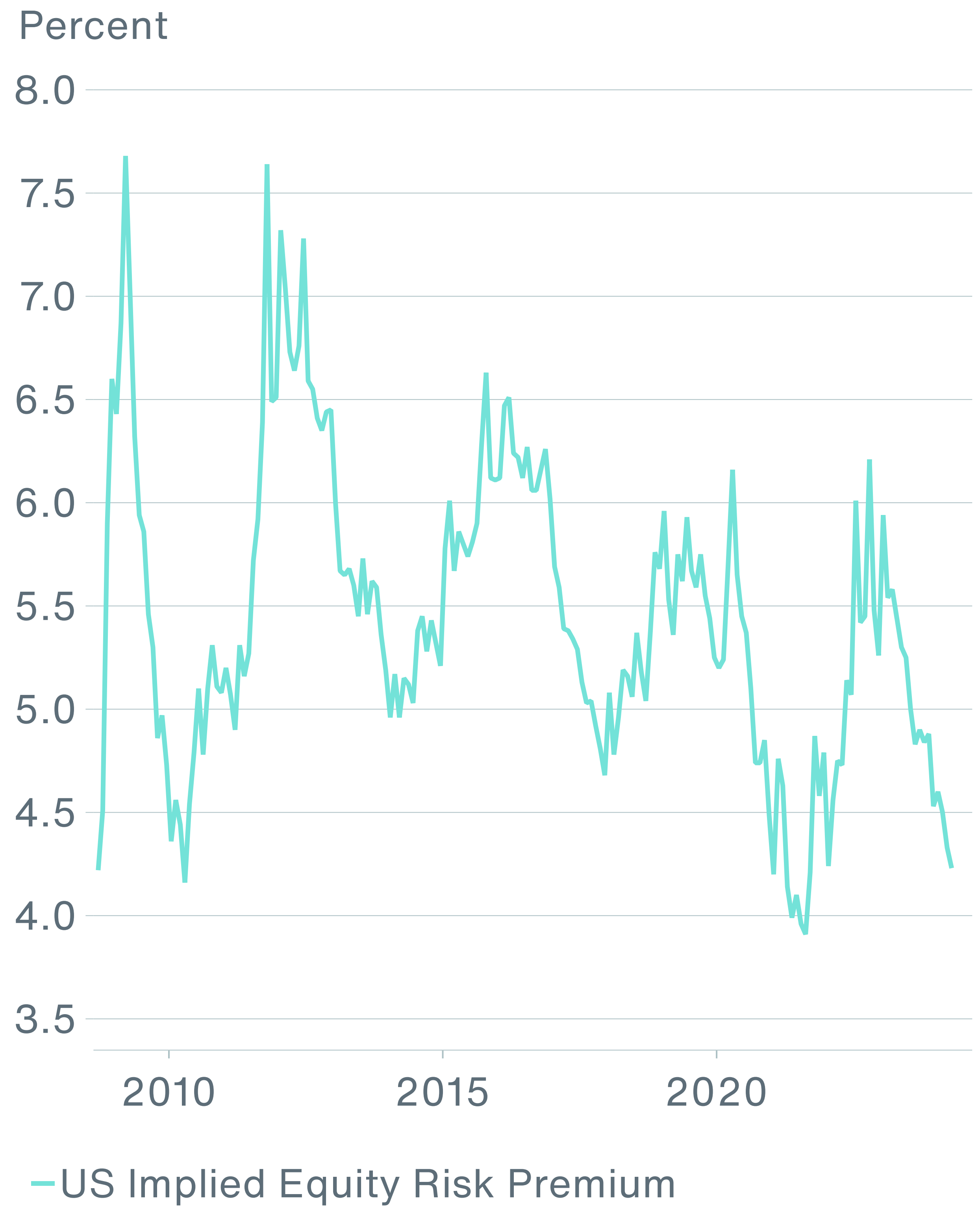
Markets are in the midst of a cyclical upswing, but risks from higher interest rates remain – we see better opportunities elsewhere

Equity markets continued to make good progress over Q1, despite rising yields and expectations that inflation is likely to remain sticky in the U.S. and other developed countries. One main reason for this is the strength of the U.S. economy, with a number of widely-tracked datapoints surprising the consensus by rebounding. We think that U.S. growth could remain relatively strong throughout this year, albeit with some degree of slowdown.

Meanwhile, we have seen gradual recoveries in activity in Europe and key developing economies, such as China, too. These recoveries have helped to trigger a pro-cyclical rally in markets, with good returns so far this year from the industrials, energy and financials sectors, amongst others. Our view is that this rally could endure in the coming months, but we worry that high interest rates will be a headwind and may limit overall returns going forward. This headwind is exemplified by the collapse in the equity risk premium, implying that there are better opportunities in other asset classes.

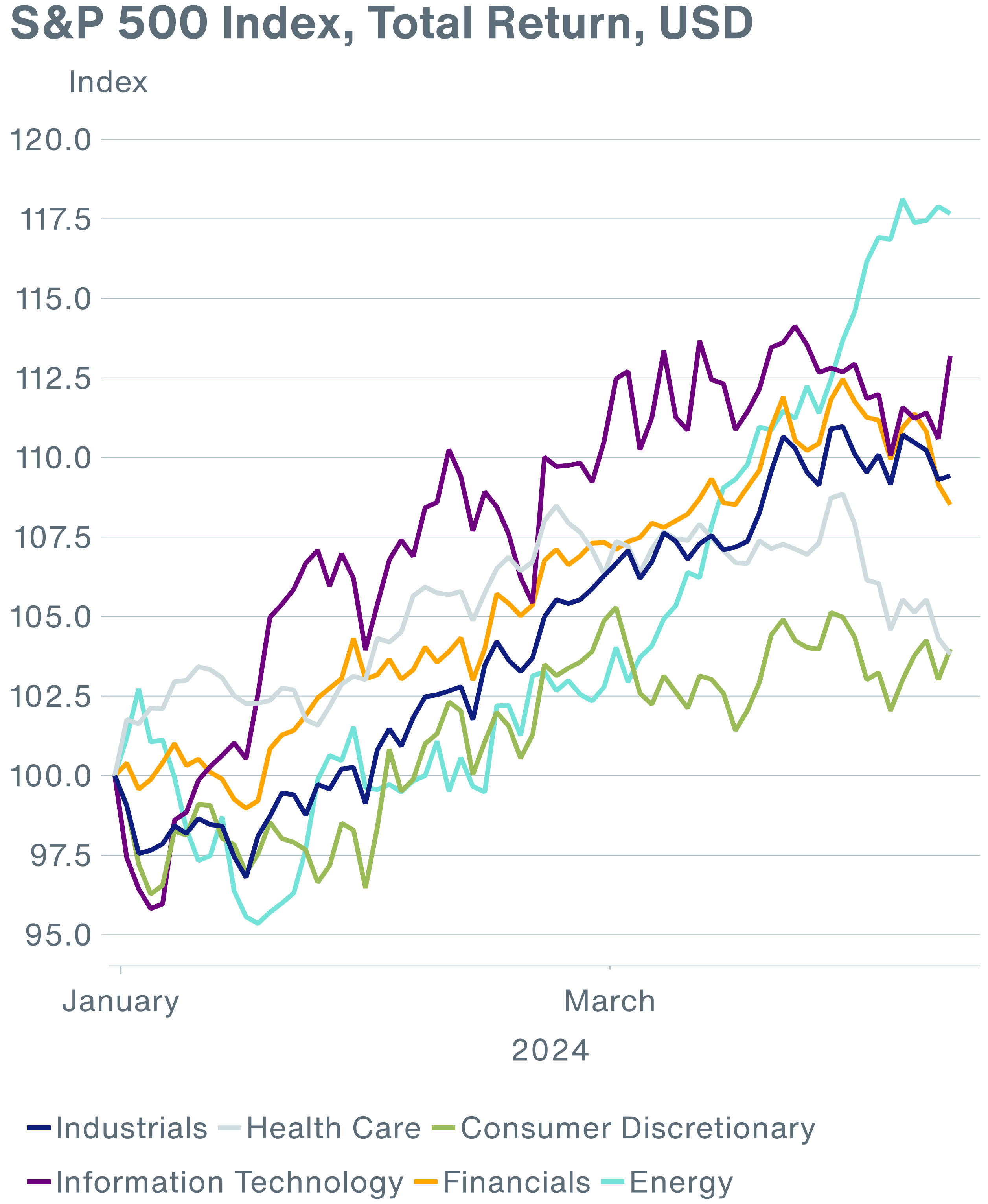
As for the AI theme, we do not think it will lose relevance in the near-term as the major beneficiary companies are highly profitable and their valuations do not look excessive. However, the top 10 U.S. stocks are now very dominant in global indices, and it makes sense to rebalance if portfolios have become similarly dominated by these big companies.

The collapse in the equity risk premium – markets to face headwinds



Source: Factset

It hasn't only been about technology in this year's rally*



Source: FactSet

*Past Performance is no guarantee of future results. Indices cannot be invested in directly. Unmanaged index returns assume reinvestment of any and all distributions and do not reflect our fees and expenses. Please refer to Appendix for Index Definitions and other General Disclosures.

Equities

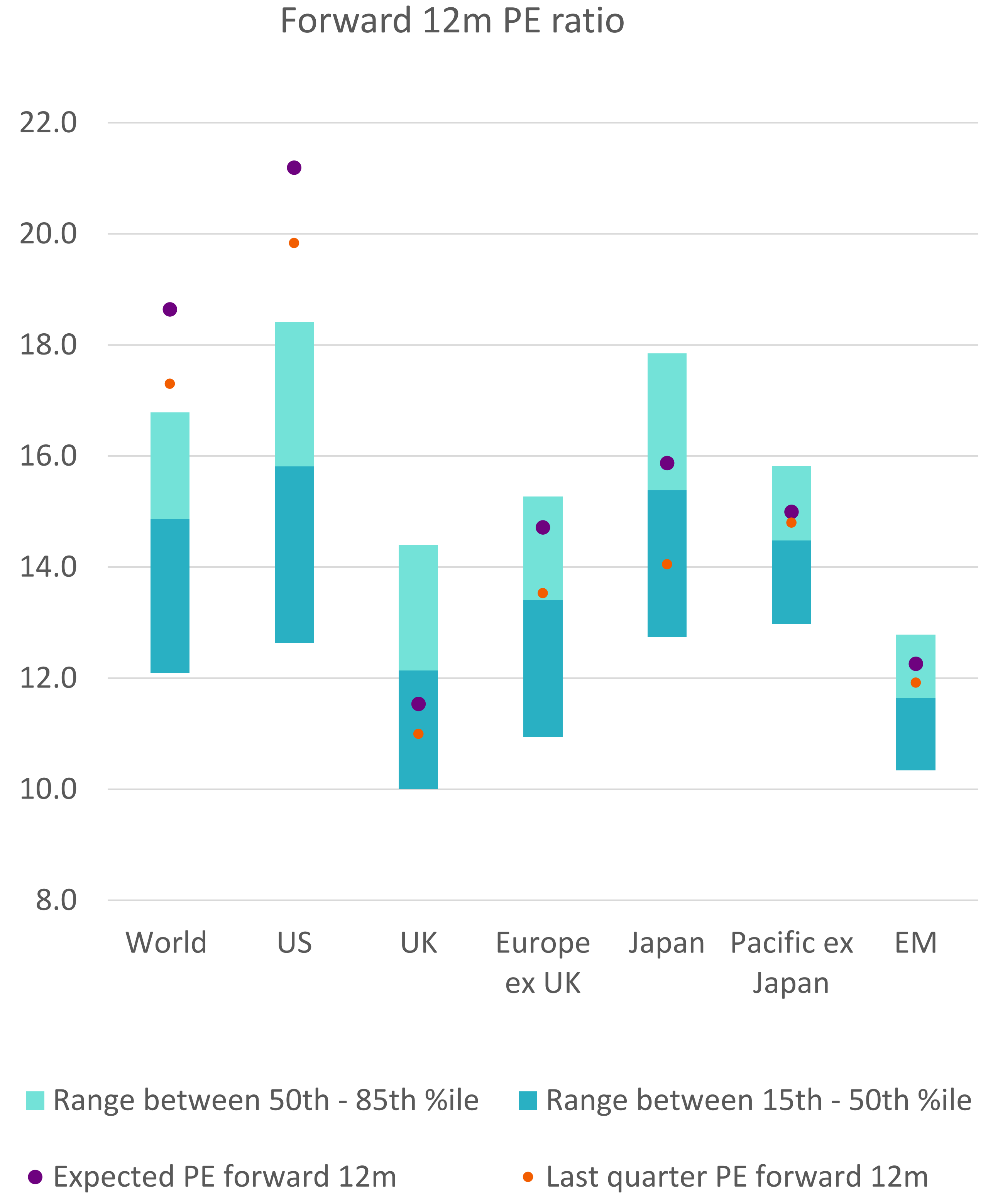
Moving to a preference for European and value equities

U.S. equities continued to outperform over Q1 although it was not to the same extent as in previous quarters. Stronger than expected company earnings and accelerating global growth (led by the U.S.) have been key drivers to the catch up of performance from sectors outside of U.S. megacap technology.

This catch-up process was evident in the move towards more expensive valuations in Europe, Japan and the Emerging Markets. However, these regions still look better value than the U.S., where valuations are significantly in excess of their 20-year historical range. Even within the U.S. index, valuations are more reasonable if we exclude the top 10 stocks. Overall, we the U.S. market may still perform well in the near-term, but it may make sense to adjust portfolio weights to take profits and to rebalance moderately towards the EAFE region. This is especially the case as we expect the cyclical upswing in markets to continue in coming months.

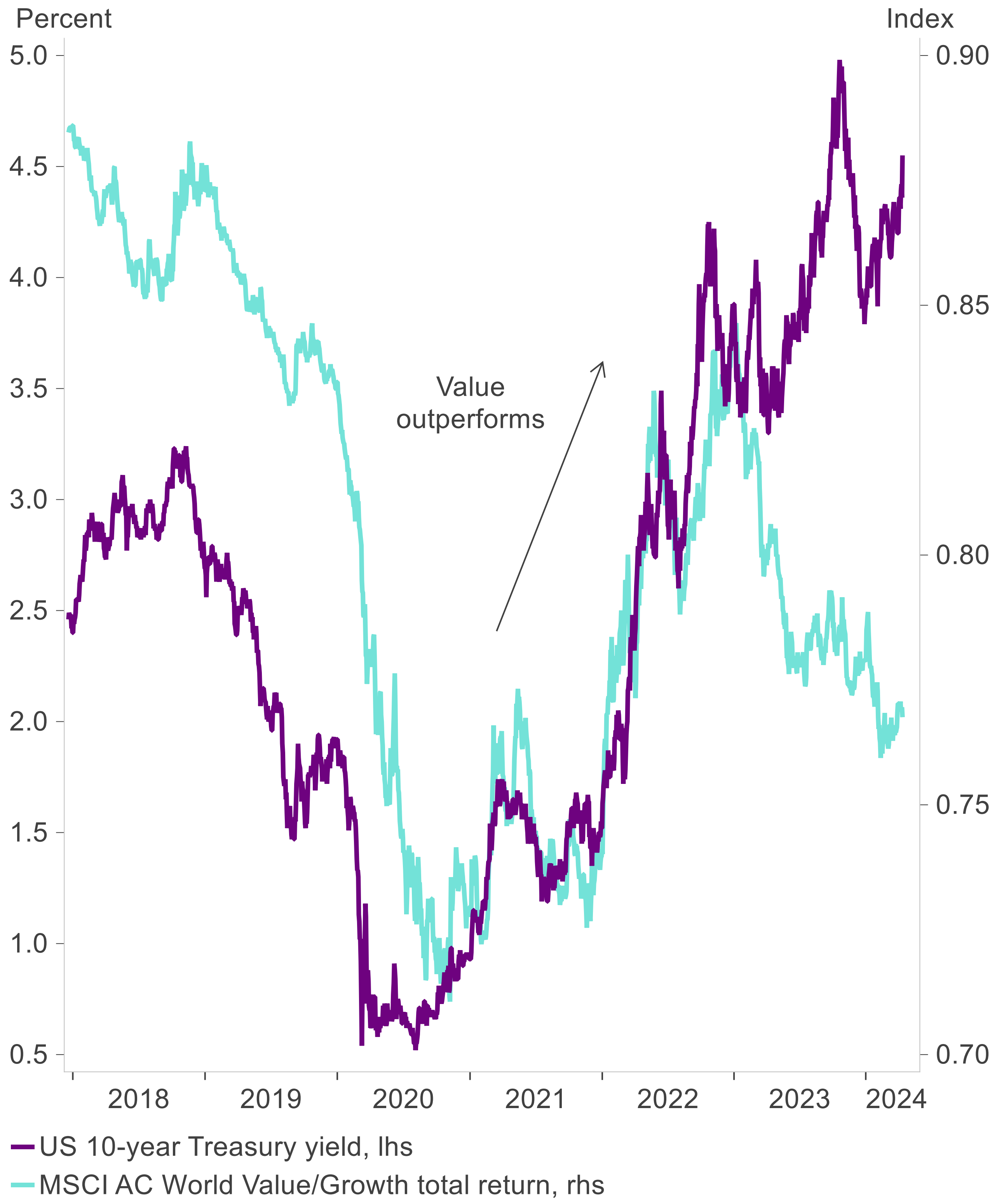
Similarly, we have moved to prefer value style equities versus growth in acknowledgment of this cyclical upswing. The AI theme is not going away and could mean that growth equities continue to perform well, but the increasing participation from key value sectors, such as financials and energy, is likely to continue in our view. At the same time, we have downgraded our view for low volatility equities as sectors outside of utilities and staples are expected to perform better as economic activity is resilient.

Rising U.S. valuations have been joined by similar trends in Europe and Japan as they start to recover



Source: Factset and Aon

Value underperformance has been substantial. We suspect that tailwinds may be forming now*



Source: Macrobond

*Past Performance is no guarantee of future results. Indices cannot be invested in directly. Unmanaged index returns assume reinvestment of any and all distributions and do not reflect our fees and expenses. Please refer to Appendix for Index Definitions and other General Disclosures.

Core fixed income

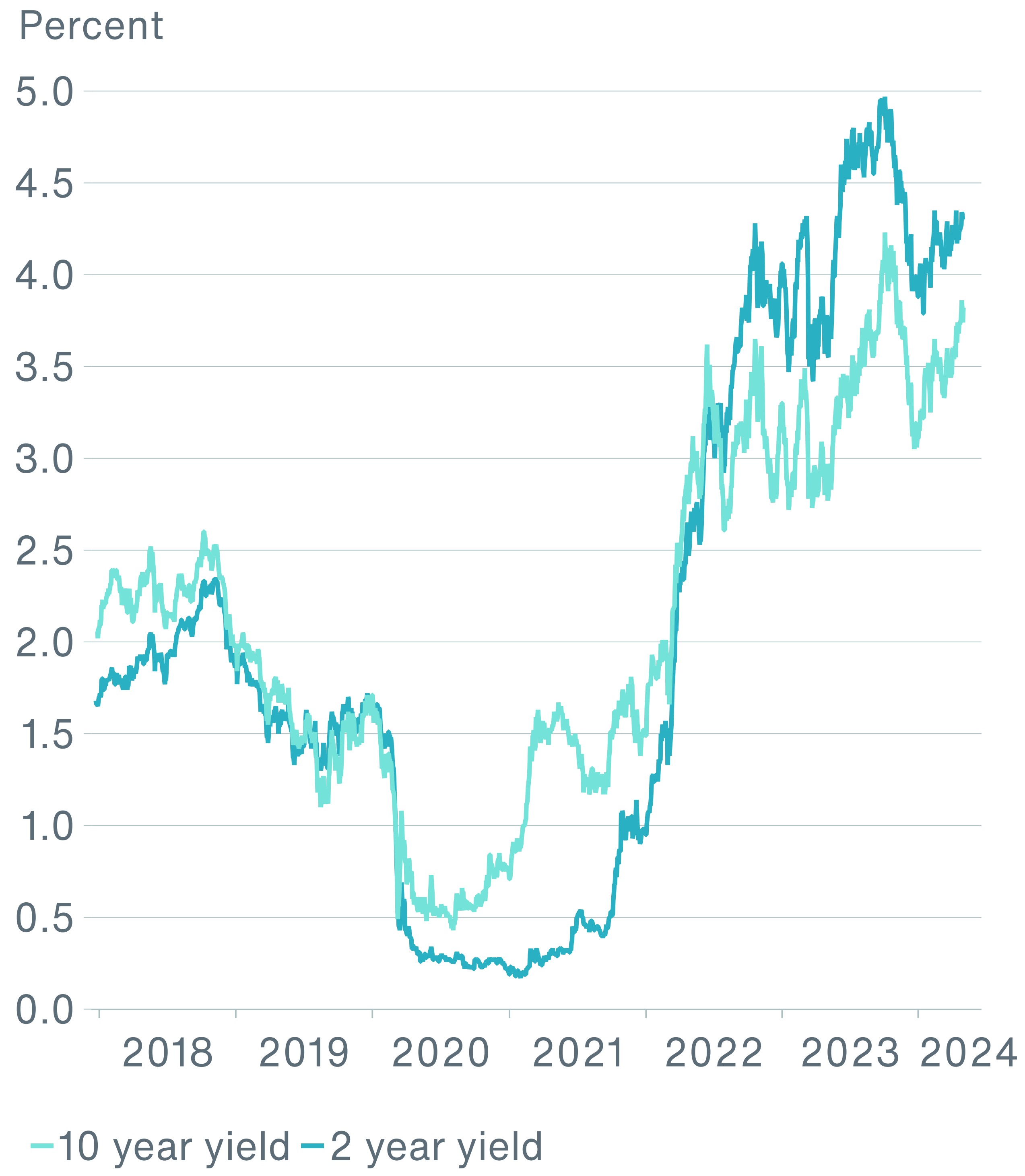
We continue to prefer Federal to Corporate bonds

Canadian Federal bond yields continued their rebound that started at the beginning of the year throughout Q1. This was a trend seen in most developed economies, led primarily by the U.S. The main reason for this has been the ongoing resilience of the U.S. economy and inflation figures that have disappointed by remaining stubbornly above Federal Reserve targets. More recently, expectations of U.S. rate cuts have been scaled back drastically, with pricing implying only one or two cuts in 2024.

In the case of Canada, while progress towards inflation targets has also slowed, the measures have continued to move in the right direction while the economic backdrop is not as strong as in the U.S. The implication for us is that the Bank of Canada is still likely to cut the overnight rate this year but may be restricted by higher market bond rates and the behaviour of the Fed. Our view is that the chances of the BoC moving before the Fed has increased now.

Having made changes to our view last quarter, we maintain our neutral duration view, whilst still preferring Federal bonds to Corporate bonds where we remain concerned about the tightness of spreads.

Canadian yields reverse sharply over Q4, especially in shorter durations



Source: Macrobond

Investment Grade corporate spreads remain tight

Source: Macrobond

Return-Seeking Credit

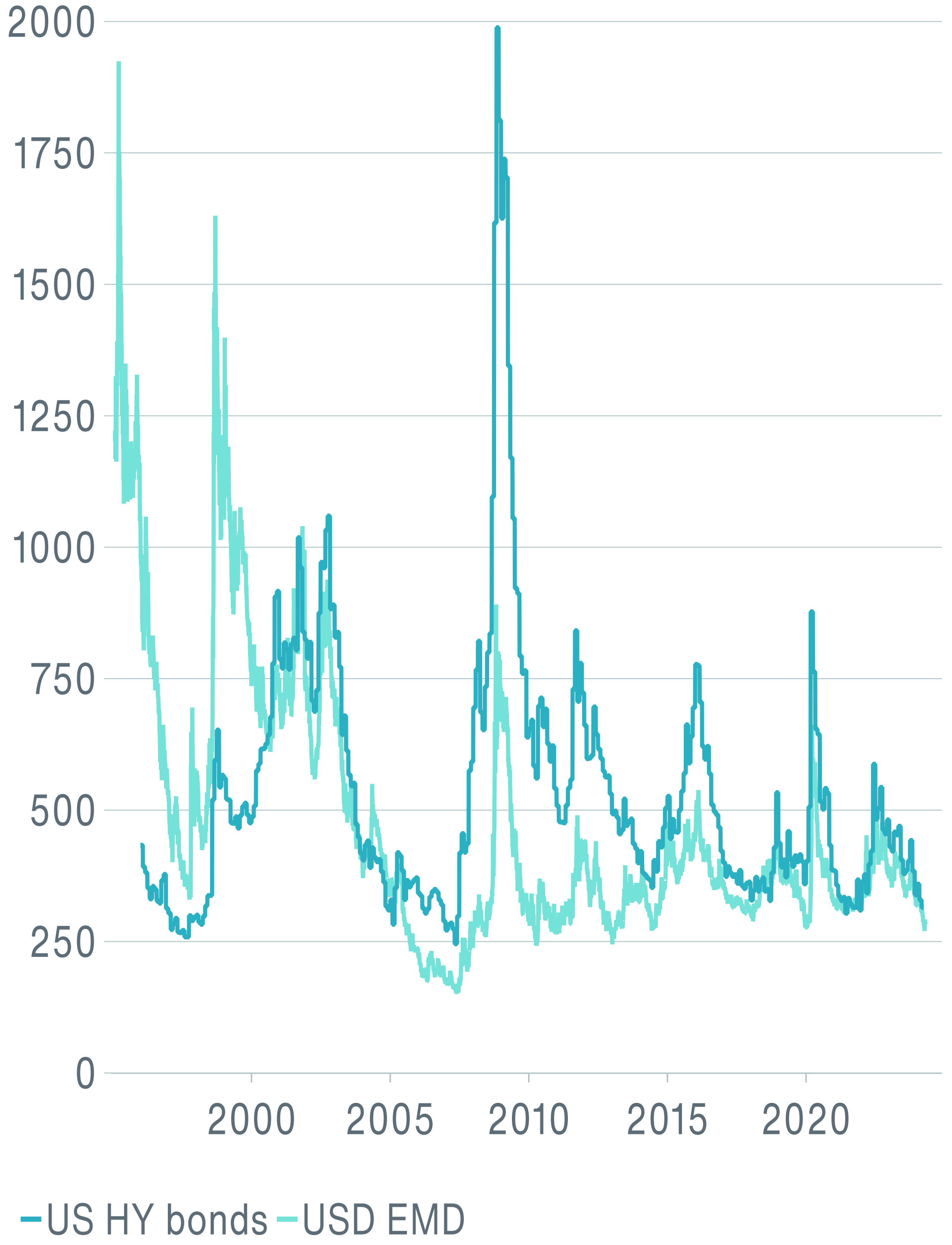
Upgrades to loans and local EM debt

The effects of higher financing costs can be seen in defaults in lower quality names but the higher rate environment is supporting the bank loan market. Bank loan coupons are now above 9% indicating good future returns even taking into account expected defaults. We have therefore decided to upgrade our view on loans to be in line with HY bonds. We expect fewer high yield bond defaults as the market's average credit quality has improved in recent years and corporate fundamentals are generally quite healthy. However, HY bonds have a lower yield than loans. Technicals are supportive for both sectors – specifically, low issuance of high yield bonds and robust CLO demand for loans. We have therefore decided to bring our return outlook on return-seeking bonds in line with the downgraded investment grade bonds even though we think that spreads will widen from current stretched levels.

Our outlook for EM debt does not change this stance. EM assets are more exposed to geopolitical risks (not all negatively as commodity exporters may gain). However, fundamentals are fairly healthy. Local EM debt has underperformed USD EMD by 5% since we downgraded it six months ago. We are now upgrading it back as their real yields are attractive after inflation has fallen. EM currencies have been weak as a result of local rate cuts and U.S. dollar strength from a U.S. investor viewpoint. However, we still think that they should outperform US EMD where spreads are very tight.

Our preferred sector continues to be asset-backed securities, especially those with higher quality.

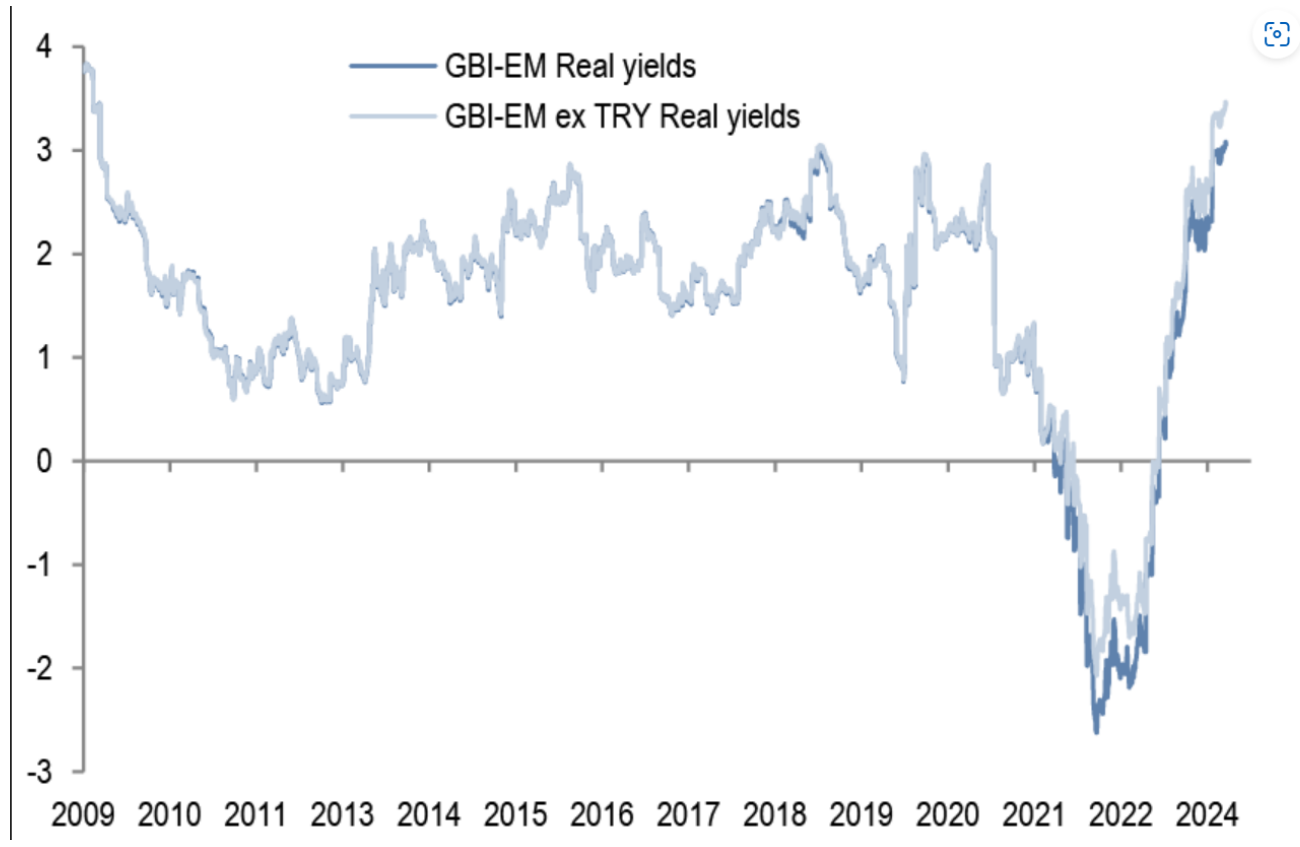
HY bond and US EMD credit spreads are close to historic lows (bps)



Source: Macrobond, ICE BofA, JP Morgan

EM local bond real yields are at the highest since late 2009

Local bond yields deflated by 12m CPI (%) – JPM GBI - EM Index



Source: J.P. Morgan, Bloomberg

Illiquid Alternatives
Medium-Term Opportunities

Private assets do not lend themselves to medium-term tilts as typically allocations will be locked in for many years, and exit-points are not discretionary. Private asset programs are best determined by your consultant, using Aon capital market assumptions, together with stochastic and deterministic risk analysis, to create a portfolio that we would anticipate should achieve investment objectives. That said, market conditions do vary, and investors may want to prioritise areas where we think opportunities may not be as long-lived and postpone deployment to asset classes where better entry points may be available in later years. The list below includes asset classes where we think vintages over the next couple of years could be particularly attractive (in alphabetical order).[1]

Strategy	Market Tailwinds
Asset-Based Finance	Banks exiting the space and a difficult environment to execute public securitizations
Bank Capital Relief	Increasing regulation is driving banks to pay up for capital efficiency solutions
Direct Lending	Returns have increased in line with higher rates as well as increased spreads and now offers equity-like returns with fixed income volatility
Infrastructure Equity	Contracted revenue and escalation clauses continue to support valuations and solid performance during times of economic volatility
Litigation Finance	Fundamentally uncorrelated return drivers and very few other sources of capital for law firms
Mortgage Servicing Rights	Significant selling from cash poor originators and natural holders exiting the space combined with a buyer pool that is highly constrained by regulatory requirements
Real Estate	Valuations bottoming out. Further, select sectors like housing, data centers, and logistics have limited supply, and the demand is rising
Real Estate Debt	Select opportunities higher in the capital structure in senior commercial and single asset single borrower as well as multifamily residential loans
Secondaries (Venture Capital and Private Equity)	Continued investor portfolio repositioning keeping discounts higher

[1] In alphabetical order as relative level of attractiveness may depend on individual client circumstance.

Currencies

Moving back to neutral against the U.S. dollar

We were right in our view that over-anticipation of U.S. rate cuts this year could cause the Canadian dollar to fall into the lower half of its 19-month 0.72 to 0.76 trading range against the U.S. dollar.

Currently the market is expecting two policy rate cuts in Canada compared with the closer to one U.S. cut expectation this year. Rate expectations have become more realistic, although it is uncertain whether the Bank of Canada will cut rates in June or later. Weaker inflation and growth in Canada compared to the U.S. is already priced into the exchange rate and speculative positioning is extremely bearish, based on the Commitment of Traders' Net Non-Commercial futures. This suggests limits to further Canadian dollar downside.

The better global growth outlook could become more supportive of the Canadian dollar given that it tends to be a pro-cyclical currency and benefits from commodity price gains which are helped by global growth. Although the euro and EM currencies are also cyclical currencies, they benefit from under-valuation and we are maintaining our preference for these currencies. The yen has continued to fall in spite of the first policy rate hike since 2007 but Japanese official intervention and undervaluation are strong short and long-term reasons respectively to remain positive on the yen.

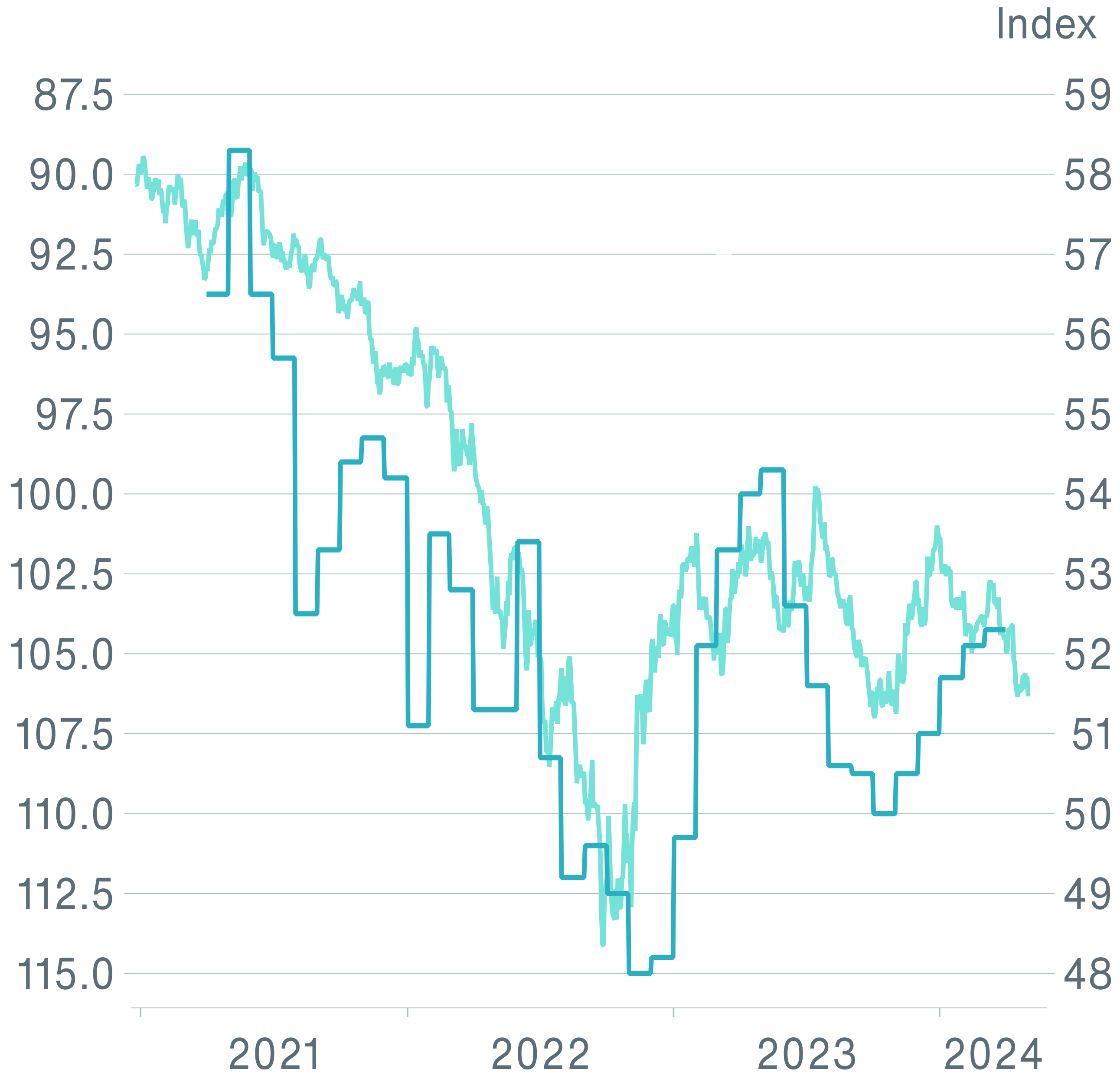
The Canadian dollar has moved down as yields have risen less in Canada than in the U.S.

-Canada-US 10 Year Yield (3 day moving average), lhs

-USD per CAD, rhs

Source: Macrobond

Global economic recovery could support non-U.S. currencies



-JPMorgan Global Composite PMI Output Index SA, rhs

-U.S. Dollar Index, lhs

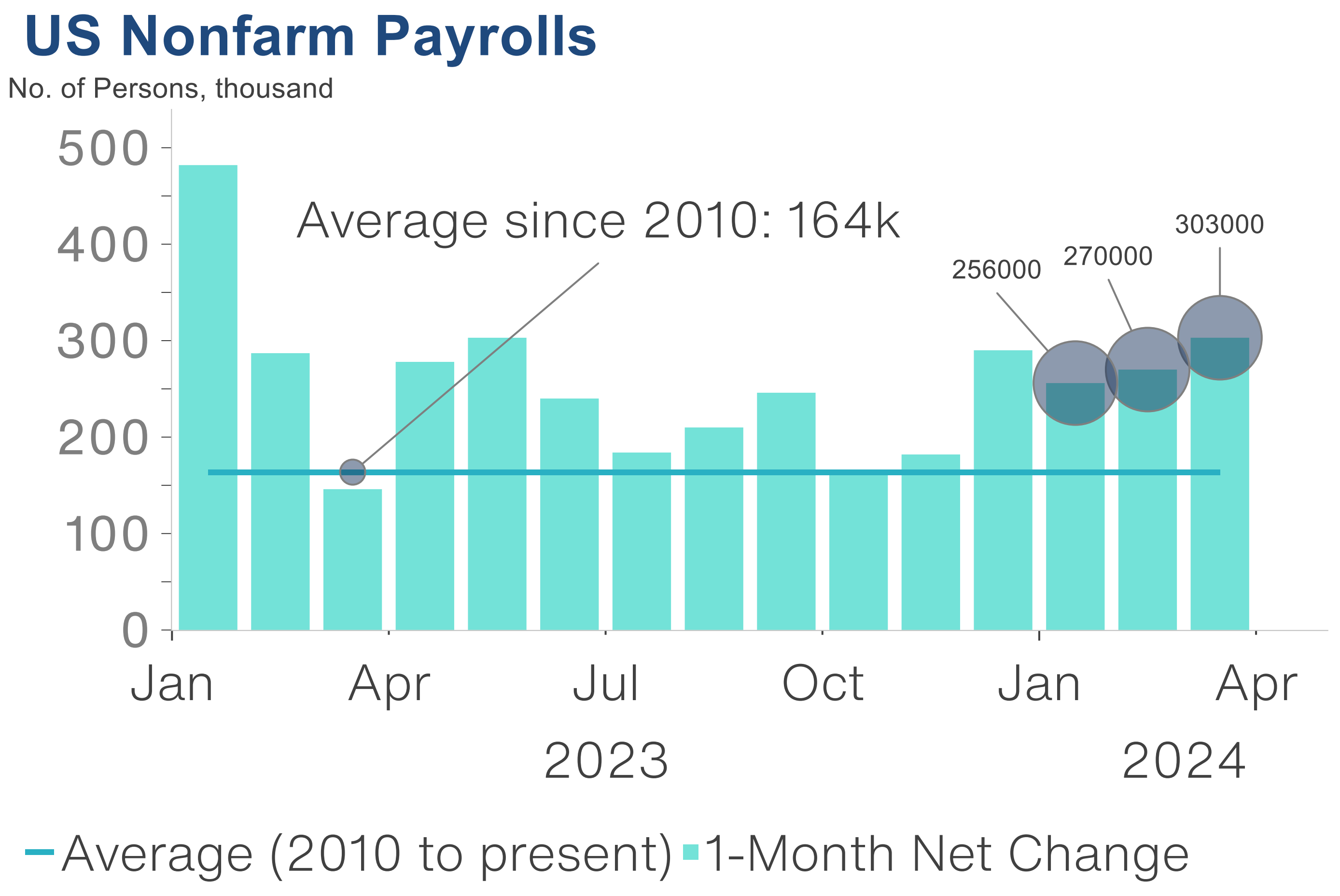
Source: Macrobond

Economic Highlights

Q4 2023's market expectations of rapid and extensive rate cuts by the major central banks have been gradually chipped away over Q1 of this year to the extent that some forecasters are now expecting no U.S. monetary policy easing at all. For example, the market was expecting as much as 7 rate cuts by the U.S. Federal Reserve at the start of the year, but this has now changed to an expectation of only 1 or 2 cuts. The reason for this adjustment has been a U.S. economy that has remained relatively strong, with the labour market statistics in particular surprising many with their robustness, and inflation figures that have started to creep higher again. Elsewhere, economic activity has been weaker, but we are seeing signs of a moderate rebound here too. The European Central Bank and the Bank of England remain set to cut rates, but the influence of U.S. monetary policy may limit how much easing we will see.

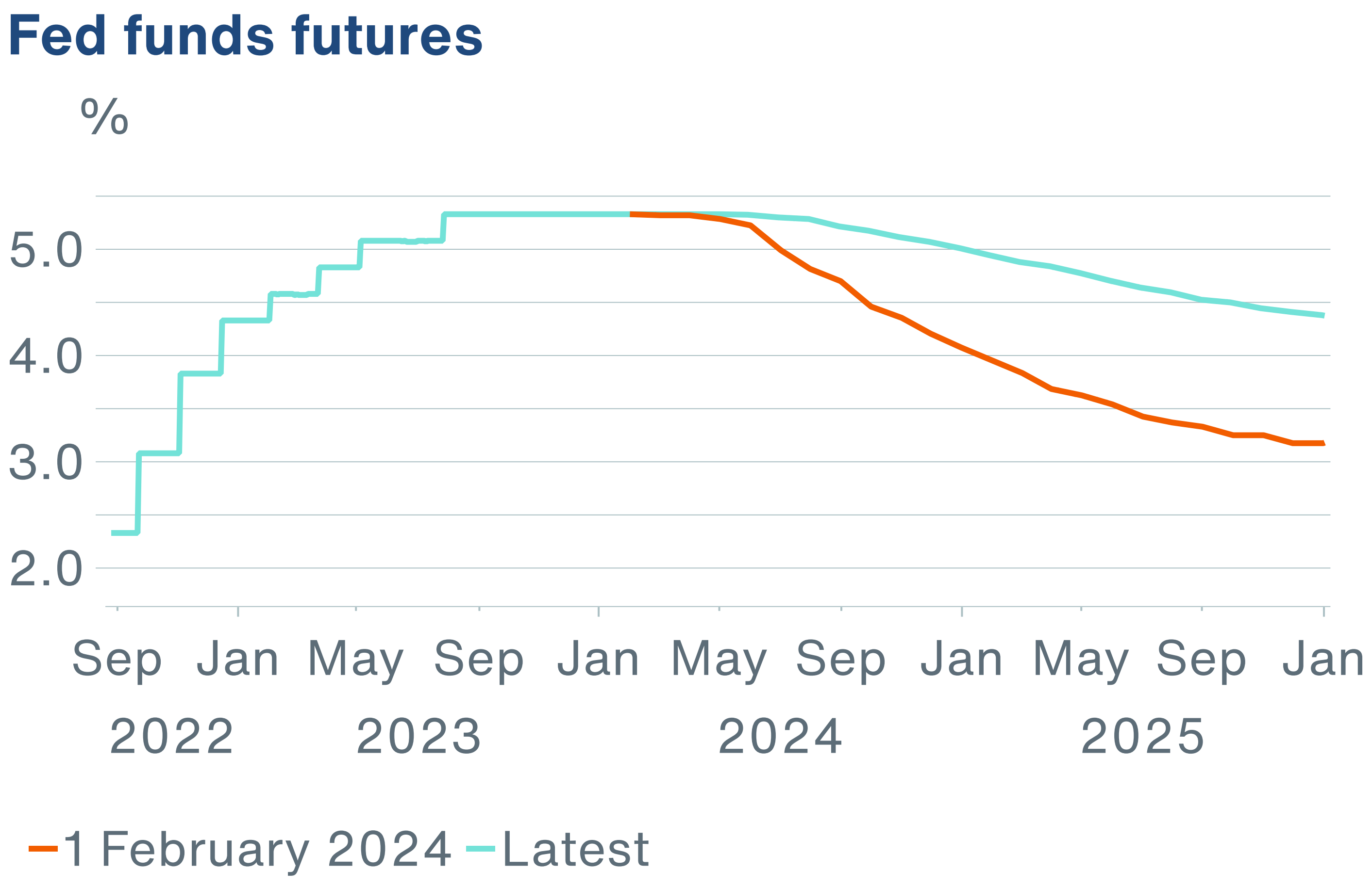
As interest rates are likely to remain higher for a prolonged period, we still see headwinds to global economic activity, but we acknowledge that the near-term trends are more positive. Significant government debt issuance, fraught geopolitics and the U.S. presidential elections are important risks over the medium term.

The U.S. labour market has been rebounding and strengthening this year



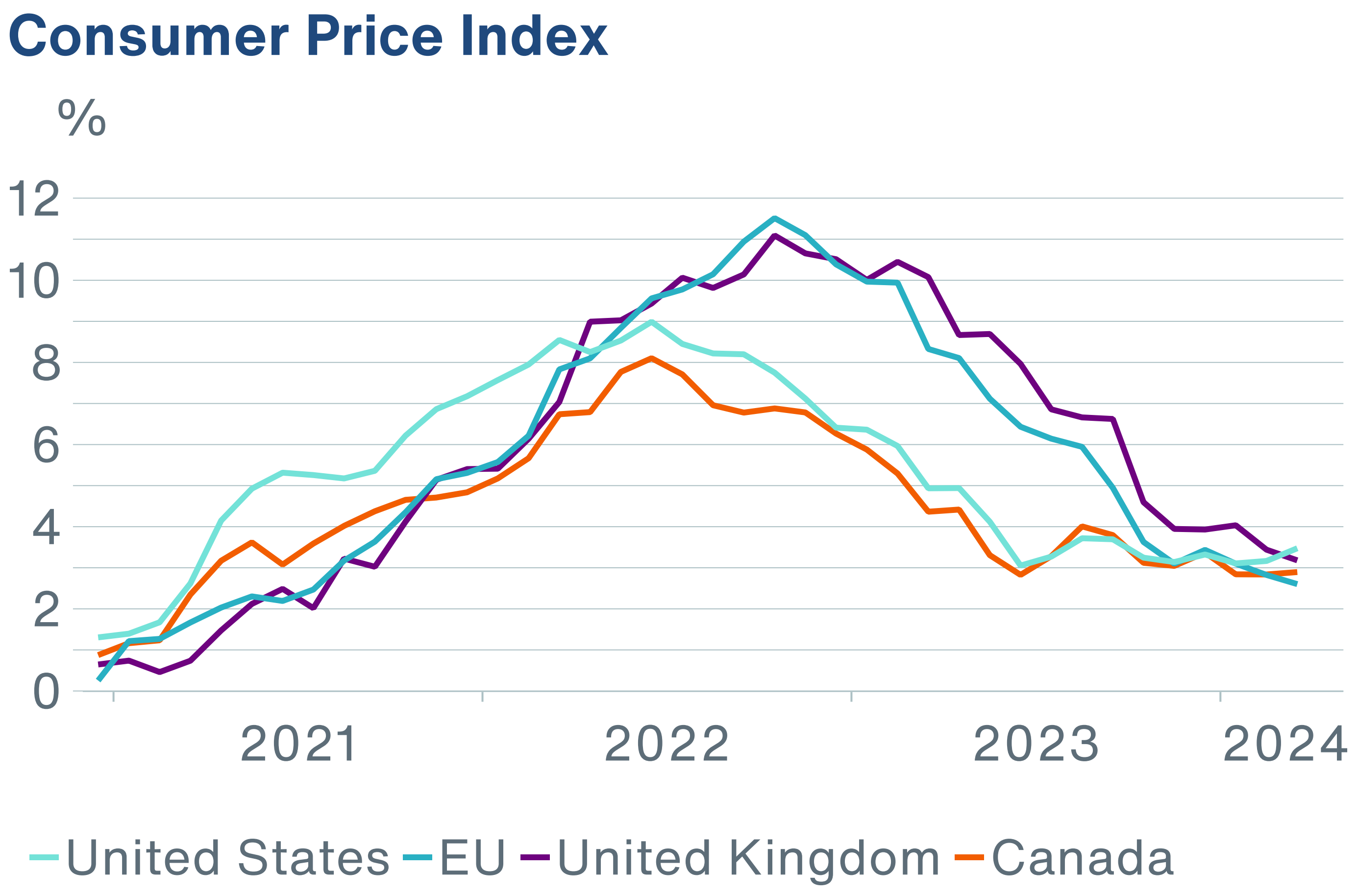
Source: Macrobond

Markets are no longer expecting many Fed rate cuts at all this year



Source: Macrobond

Progress on bringing inflation down is stalling and inflationary pressures have not dissipated yet



Source: Macrobond

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Appendix

Thought Leadership

AON

Thought Leadership Papers

Click the icon to read the associated paper

Market Outlook
access code
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How Public Pension Should Assess Liquidity

Many public pension funds find value in illiquid assets such as private equity, private credit, and real assets. Read on for research-backed guidance on how different plan characteristics can impact public pension funds' ability to invest in illiquid assets.

Investing in Infrastructure

Aon's Iftikhar Ahmed shares insights on what it means to invest in infrastructure equity, how the asset class landscape has grown over time and how investors should think about implementing their infrastructure programs.

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Everything Everywhere All at Once: 5 Insights on Climate Change within Investments

There are many vocal market participants taking strong and unwavering stances on how investors should approach climate change risks and opportunities, yet they express widely differing views. This paper aims to cut through the noise and get to the heart of five key insights investors should understand.

Impact Investing is Hard: Here's How to Do It Well

The landscape for impact investing is complex and evolving. Investors need to balance their impact with other investment characteristics. These tradeoffs also require a different approach depending on the asset class and investment structure.

In this paper, Aon's team shares insights on key considerations, recommended questions and a practical framework.

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