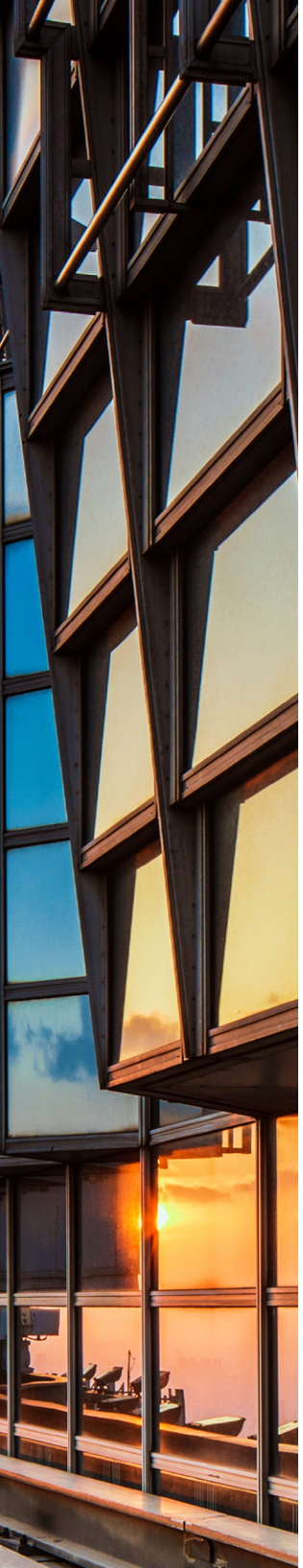
canada life™ | Investment Management

2022 Market Outlook

Navigating the new normal

The COVID-19 virus was the global story for 2020 and most of 2021, but how economies around the world restart from the pandemic and thrive in a post-pandemic world will be the story that dominates the investment industry in 2022 and beyond.

Contents



Foreword

COVID-19 was the main determinant of economic activity and the leading global story for 2020 and most of 2021. How economies around the world restart from the pandemic and thrive in a post-pandemic world will be the story that dominates the investment industry in 2022 and beyond.

This is not yet fully understood, nor has it fully played out, but it will have widespread implications for how portfolios are managed and monitored.

It's reasonable to generalize that the powerful restart of economic activity following the pandemic-induced shock is broadening. However, a closer look at the markets shows many sectors that remain far from a full recovery, and many others that have positively thrived in the pandemic environment.

As we enter 2022, some key factors remain top of mind for asset managers – global inflationary pressures and the resulting response of monetary and fiscal authorities, alongside the overall policy normalization path that central banks around the world will follow to remove pandemic-related stimulus. When, how and at what pace central banks begin to normalize their monetary policy will determine whether the global economy avoids recession or experiences a much harder and bumpier ride.

It's amid this foggy market environment that we present Canada Life's 2022 Market Outlook. We hope it will inform your asset allocation decisions, support you in building stronger portfolios, and help you establish reasonable expectations for risk and return with your clients. Our goal is to help you understand what lies beyond the economic restart, so you can prepare for the investment opportunities and challenges that it might bring.

This edition explores several key topics, including:

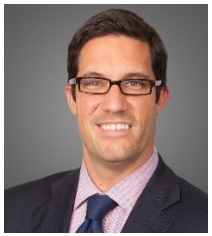
1. Whether higher inflation will prove transitory or longer lasting, and its impact on policy actions, global growth and market performance
2. How the post-pandemic recovery will ease global supply constraints, pricing pressures and labour market shortages
3. The potential fallout from policy actions in China, which drives nearly one-third of global savings and investment
4. The ongoing threat of COVID-19, and why we shouldn't let our guard down just yet

Foreword, continued

To compile this report, we teamed up with some of the most sought-after investment managers from the industry to bring together a comprehensive collection of market insights. Our broad range of solutions and sub-advisors allows us to deliver these truly global perspectives, and diverse capabilities, so we can help advisors position client portfolios to make the most of tomorrow's investment landscape.

Despite the potential challenges outlined by our thought leaders, Canada Life Investment Management remains firmly optimistic that with the right investment strategies, and precision in their execution, advisors can deliver on clients' expectations. Whether investors are seeking income, capital appreciation, lower volatility or the ability to reach their financial goals in a socially conscious way, we've built a comprehensive selection of winning investment strategies to meet these needs.

We look forward to collaborating with you to make the best use of this global market outlook, in setting your own strategic perspective and also in navigating your clients' investment journey. On behalf of Canada Life Investment Management, thank you for your continued trust and confidence. As always, we welcome your feedback.



Steve Fiorelli

President and
Chief Executive Officer
Canada Life Investment Management

Macro-economic outlook

While some macroeconomic challenges have begun to appear in recent months, and the potential for positive surprises has receded compared to the past year, at Irish Life Investment Managers, we believe we are still in the first half of the current economic cycle.

Irish Life

And while growth is likely to slow in the year ahead, we still expect it to remain robust and above trend throughout 2022. There are several factors contributing to this outlook, including the strength of consumer balance sheets, the scale of excess savings built up during the pandemic, still-elevated levels of stimulus, low corporate inventories and an expectation that supply bottlenecks will ease.

We think this backdrop should be positive for equity markets and allow for further upside in 2022, even though the pace of gains is likely to slow compared to 2021. Low nominal bond yields and negative real yields should also support equity markets. In fixed income markets, we expect above-trend growth to lead to further modest rises in yields, although the extent of any rise should be capped by easing inflation and by central banks' policy stances remaining accommodative.

That said, one of the challenges ahead is the potential for a sustained rise in inflation and concerns that this could turn into stagflation, where high inflation is combined with low levels of growth. Should this happen, it would pose risks to both equities and bonds. The persistence of high inflation would likely result in tighter monetary policy relative to current expectations, leading to slower growth, higher bond yields and less attractive relative valuations for equities. However, given our outlook for above-trend growth, we believe concerns over stagflation are overblown.

While higher rates of inflation have lasted longer than expected, we still believe this will prove to be transitory. We expect global supply constraints to fade eventually as economies fully reopen and activity levels return to normal. Price pressures have already begun to ease in areas such as lumber, freight rates and gas prices. With long-term disinflationary forces related to automation and technology remaining in place, we believe upward pressure on inflation will begin to fade through 2022. Further, inflation should decline close to central bank targets by the end of 2022, thereby avoiding the need for earlier and more aggressive tightening of monetary policy than expected.

Macroeconomic outlook, continued

> Several challenges have begun to emerge since mid-2021 that have slowed the momentum of growth, raising questions among investors over the strength and length of the current economic cycle.

The outlook for labour markets is important both from an inflation and growth perspective. While an aging population and pandemic-related retirements have had an impact on labour force participation, the removal of income supports and easing concerns around caregiving and COVID-related health issues as economies reopen should lead to an improvement in labour supply. Given the current high level of unfilled vacancies, we anticipate higher employment growth in coming months, boosting consumer spending while also easing some of the recent pressure on wages, which in turn should ease headline inflation pressures.

Recent concerns around global economic growth have also been linked to a slowdown in the Chinese economy. This is partly related to possible contagion from the expected collapse of The China Evergrande Group, a large property developer, and increased regulatory efforts to reduce financial inequality. Policy actions and statements from the Chinese government have indicated a willingness and intention to prevent negative fallout in the property market, and we expect them to be successful in this regard. While policy support will be lower than in the last decade, we expect sufficient policy measures to ensure growth remains above the 5% threshold level, which would be supportive for the global economy.

Global policy supports are expected to be lower in 2022 compared to the levels seen since the beginning of the pandemic, but this is already incorporated into forecasts predicting slower growth in 2022. Although governments are reducing fiscal deficits, they're expected to remain well above pre-pandemic levels and will continue to support the economy. Similarly, while central banks have begun to reduce the level of accommodation, in the absence of a sustained rise in inflation, policy settings are set to remain loose compared to pre-pandemic levels, which should also continue to support growth.

Nonetheless, COVID-19 remains a potential threat to the global economy, with the recent increase in case numbers and emergence of the Omicron variant serves as a reminder that the virus has not been eradicated. However, vaccines are proving to be effective in terms of reducing the risk of severe illness, hospitalizations and death. As vaccination rates rise and booster rollouts begin, the risk of a return to the hard lockdowns of 2020 and early 2021 is diminishing. Recent positive trial data on antiviral treatments provide additional tools to fight COVID-19. Corporations and consumers have learned to adapt to the circumstances brought on by the pandemic, and the economy now appears better placed to manage and be more resilient to periodic increases in case numbers.

In relation to Omicron, we are still awaiting results on its resistance to existing vaccines and level of transmissibility. Early indications suggest that current vaccines are still highly effective against the new variant and the illness associated with it appears to be quite mild, which reduces the associated risks.

Asset allocation

Across asset classes, geographies, sectors and strategies, 2022 looks like a year of continued change and cautious optimism for the markets. As COVID-19 moves from a global pandemic to endemic disease, Portfolio Solutions Group is maintaining a neutral asset mix relative to fixed income and equity benchmark weighting in the target risk portfolios. This approach is prudent as economies adjust to less stimulus and greater trade.

Portfolio Solutions Group

A division of Canada Life Investment Management

Domestic fixed income

We expect Canadian interest rates to keep rising in 2022 in response to the risks of inflation and unwinding of monetary stimulus. Government bonds are expected to continue to act as a safe haven, but corporate bonds and real return bonds should help drive stronger returns.

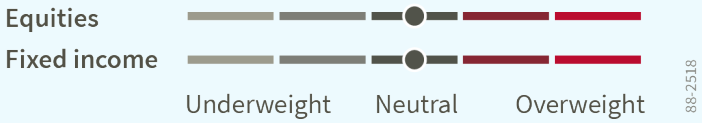
> **Portfolio positioning:** Lower than benchmark duration in Canada and, to hedge against rising inflation, increased real return bond exposure.

Foreign fixed income

We anticipate global interest rates to rise under continued inflation and central bank tapering. Hawkish tones and a willingness to raise rates by central banks is a positive sign that persistently elevated inflation will not be tolerated. However, there is the potential for central bank policy divergence as we enter 2022. While the U.S. appears poised to lead rates higher, Europe, Japan and China are showing a bias to maintain their accommodative policies.

> **Portfolio positioning:** Lower than benchmark duration and increased corporate bond exposure.

Current asset mix



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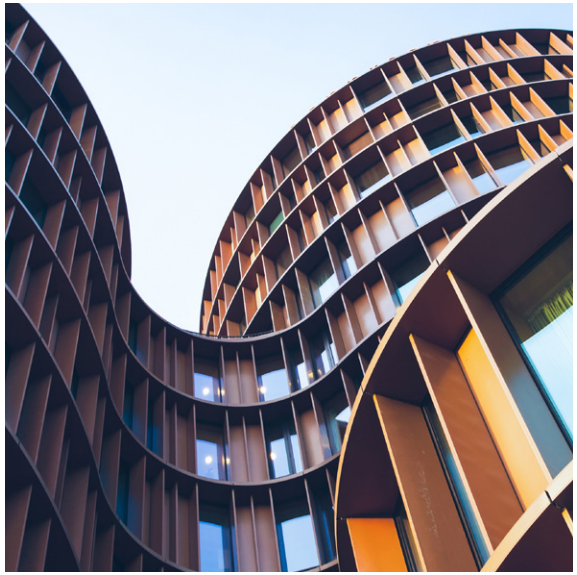
Foreign equity

Equity markets are expected to focus on the post-pandemic economic recovery and the ability of companies to maintain earnings growth after already experiencing significant growth in the past year. The ability to pass along price increases to clients and the inflation of input prices will be significant areas of focus.

After being led by large-capitalization stocks for the past three years, U.S. markets may experience a shift in leadership toward smaller- and mid-capitalization companies. While U.S. earnings growth remains solid, a deceleration of growth is a likely reality.

As global supply and demand normalizes, the opportunity for emerging markets' outperformance resurfaces.

Asset allocation, continued



Emerging markets are often faced with challenges such as political instability and currency volatility. As China's gross domestic product growth decelerates, the country's pandemic situation, real estate sector, policy moves and political environment will be closely monitored.

> **Portfolio positioning:** Relative to other regions, over-extended valuations in the U.S. are reflected by a slight underweight in the portfolios. International exposure to Europe, Australasia and the Far East (EAFE) has increased slightly and we are overweight in emerging markets versus the benchmark. Neutral exposure to value and growth will provide opportunities to capture returns from both investment styles.

Domestic equity

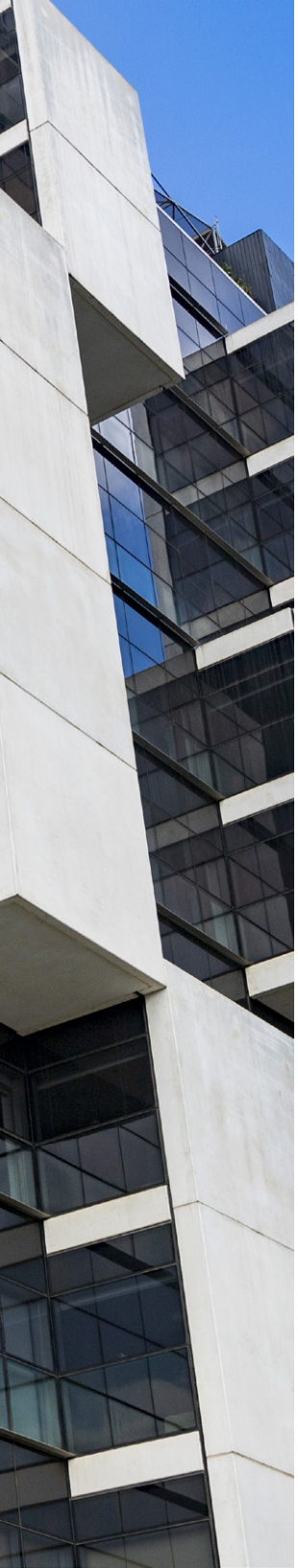
With strong commodity prices, a solid financials sector, leading vaccine uptake and reasonable valuations, the Canadian market appears relatively strong. While investors' hunger for growth appears to continue, value stocks could perform well as regulations limiting dividend payouts from banks are lifted and energy companies benefit from higher prices.

> **Portfolio positioning:** With unpredictable moves in style leadership, we expect to benefit through a strategic exposure to both styles.

Real estate

Historically, real estate has provided a strong hedge against inflation because of the pricing power held by owners and consistent demand. Portfolio occupancy of the real estate investments has remained strong and will continue to drive the income component of returns. Canadian industrial and multi-residential markets continue to provide strong opportunities for growth. Real estate's diversification element will stand out in 2022.

> **Portfolio positioning:** Direct real estate exposure will hedge against continued inflation pressures.



Canadian fixed income

As we enter 2022, there is lack of clarity on whether inflation is transitory or becoming more entrenched.

MACKENZIE Investments

This leaves fixed income markets open to significant risk in the form of any potential policy error by the Bank of Canada (BoC) or the U.S. Federal Reserve Board (Fed), whose policy also affects the Canadian market. Add to this the unprecedented nature of the pandemic-related recession and recovery, and central banks are in a difficult situation where errors can easily occur. The risks appear tilted toward the possibility that the BoC could be too aggressive and stifle growth, or the Fed could be too accommodative, allowing inflation to become entrenched.

In changing interest rate environments, higher volatility is expected both in the yield curve and within credit markets.

In terms of credit, as the impact of the pandemic recedes, economic activity and aggregate demand are expected to remain robust through 2022, which would support corporate balance sheets. On the other hand, extraordinary monetary and fiscal stimulus has resulted in all risk assets being highly sought after, partly based on investors' expectation that should there be an adverse shock in credit markets, fiscal and monetary authorities would again step in to bail them out. A change in this expectation or a significant reversal in risk sentiment would likely lead to credit markets selling off.

Portfolio positioning: We will maintain a short duration position and an overweight position in corporate bonds. As a result of the overweight to corporate bonds, we will also maintain a somewhat underweight position in provincial bonds.

Canadian fixed income, continued

With consumers and investors having mostly adapted to life post-pandemic, the economy should continue to grow.

BEUTEL GOODMAN Investment Counsel

The big question at this point is what level of growth we can expect for the coming year. We are likely past peak expansion and in the late stages of this growth cycle, although a significant amount of stimulus remains in the economy.

> Looking ahead to 2022, the key question bond markets will grapple with is the timing and magnitude of central bank tightening.

One factor constraining growth expectations is the stamina of the inflationary pressures experienced in 2021. We do not expect a return to the low inflation levels (sub 2%) we saw prior to the pandemic and above average inflation could persist into 2022. Even once the world has completely reopened, the mismatch between supply and demand won't go away overnight, meaning goods inflation will likely persist. For now, central banks appear to support the transitory inflation view, however, they are setting the stage for a tightening cycle, first by tapering quantitative easing, then to be followed in mid-2022 by rate hikes. The pace and amount of rate hikes will in part be determined by inflation but also by the level of employment in the U.S. and the output gap in Canada. We believe that the terminal rate is likely in the 1.75% to 2% area. The large amount of debt in the system could make it difficult to raise interest rates significantly without triggering a recession.

There are signs of concern in the credit markets. Merger and acquisition risk will remain high, buoyed by the combination of low borrowing costs, private equity coffers awash with cash and attractive valuations of some lagging companies. In addition, corporations will be under pressure to return cash to shareholders, either through share buybacks or increased dividends, which could come at the expense of the bondholder through increased leverage.

> **Portfolio positioning:** We are positioned for an environment of increasing interest rates, with underweight positions in federal and provincial bonds and an overweight position in corporate bonds .

Global fixed income

As the pandemic wanes in 2022, T. Rowe Price expects global economies and markets to normalize.

T.RowePrice®
INVEST WITH CONFIDENCE

Governments will likely continue to implement fiscal stimulus packages, albeit to a lesser extent than the past two years. Many central banks have begun reducing extraordinary monetary stimulus but remain accommodative. Against a backdrop of steady economic growth, we expect higher-than-average inflation and supportive monetary and fiscal policies to lead to higher interest rates and steeper yield curves.

On the other hand, if central banks keep policy rates too low for too long, then longer-term inflation expectations could become unanchored and accelerate higher. In this scenario, central banks would need to raise policy rates quickly to stop inflation, risking a slowdown in economic growth. While we think this is a longer-term issue, it's worth monitoring, because bond markets would suffer.

Across global credit markets, defaults are expected to remain low and ratings upgrades should outpace downgrades.

In emerging markets, we expect to see stronger growth in 2022. In China, regulatory actions across many sectors should ultimately lead to a stronger corporate bond market via lower debt levels and rational pricing of market risk. At the same time, China's "COVID-zero" policies present a risk and could lead to a slowdown in domestic growth. Since China drives nearly one-third of global savings and investment, which is almost twice as much as the United States, this would adversely affect the global economy.

Portfolio positioning: Over the course of 2021, we opportunistically added more than 10% in global inflation linkers to the portfolio. We added floating rate loans and shorter duration high yield bonds to take advantage of attractive yields and to help the portfolio in a higher interest rate environment. To mitigate the effects on the portfolio from rising yields, we are managing the duration of the portfolio at a significantly lower level than the benchmark.

Global fixed income, continued

The key market risk for 2022 continues to be the pandemic and the potential for new mutations.

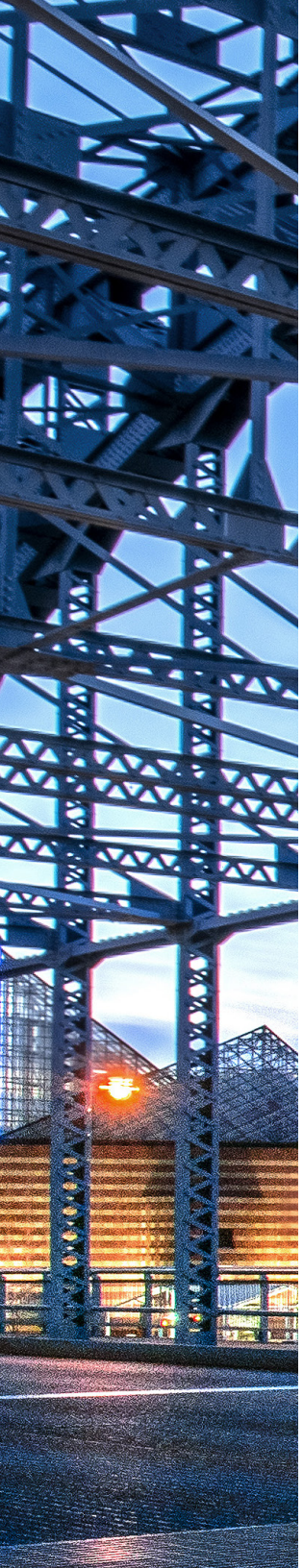
However, the ramp-up of vaccinations around the world is good news for a global economy still not fully reopened. This offers some hope that the impact of each new wave of the pandemic will decline as we learn to live with the virus and develop new therapeutics.

> Monetary policy is set to be tightened over the next 12 to 18 months as central banks reverse their quantitative easing programs and shrink their fiscal stimulus packages.

The combination of less accommodation from central banks and continued inflation should broadly lead to higher sovereign rates, which may impact investment-grade corporates as well. If one assumes that a higher rate of inflation is to persist, tactical opportunities may exist in sectors that hold pricing power (e.g., energy, commodities, health care, consumer staples). The healthy economic backdrop has also led to estimates that high yield default rates may return to pre-COVID-19 levels. While there may be short-term volatility based on the Fed's tapering approach, we see no clear catalyst that would result in default rates materially rising. A sizeable equity cushion, which has grown significantly, and relatively higher real yields in the sector, make high yield bonds attractive for investors seeking income.

We view structured credit as cheaper than comparable credits. Select mortgage-backed securities (MBS) continue to benefit from a strong U.S. housing market, while delinquencies continue to decline. Commercial MBS offer good relative value compared to high yield corporate credit, with uncertainties in the sector well priced in.

> **Portfolio positioning:** We believe energy, commodities, consumer staples and health care companies are better positioned to pass inflationary costs through to their customers.



Canadian equity

As central banks taper their asset-purchase programs, liquidity may become more constrained.

However, the negative impact of tapering is likely to be at least somewhat offset by continued—and potentially expanded—fiscal spending. This spending could have an outsized positive impact on an economy's ability to grow despite tightening monetary conditions, particularly when it comes to productive spending such as investment in infrastructure.

> As long as the virus is kept in check, supply-chain disruptions begin to dissipate and inflation doesn't get out of hand, consumer spending should rebound and fuel further economic growth in 2022.

Elevated inflation has stoked concerns about the possible need for central banks to raise interest rates faster and further, but higher inflation could be positive for some equity sectors. A steeper yield curve may benefit financials stocks, higher energy prices have provided a boost to the energy sector and higher commodity prices have been positive for the materials sector. We also take some comfort from the fact that "goods inflation" is what is currently driving consumer price indices higher. People will either find substitutions for products that become overly expensive or stop buying non-essential items, and prices will fall.

On the pandemic front, as vaccines become more available and vaccination rates increase, each new wave should be less damaging to the economy than the previous one, while new therapies coming to market will also help.

Portfolio positioning: We will continue to execute on process-driven sales, recycling the funds into stocks we believe have higher-return potential, selling the businesses that are fully valued, and adding new companies when they are trading at a significant discount to what we have determined is their intrinsic value.

Canadian equity, continued

Looking ahead to 2022, we anticipate strong capital returns to shareholders through dividends and share buybacks, particularly from Canadian banks and energy companies.

MACKENZIE Investments

Across sectors, we expect companies to be increasingly focused on environmental, social and governance (ESG) goals, particularly on their carbon footprint. For energy companies seeking to reduce their impact on the environment, this could stifle production growth. However, given investors' focus on the importance of ESG, we don't expect growth to be rewarded by higher multiples.

Higher commodity prices have generated adequate cash flow for energy companies to repair their balance sheets and fund ongoing production, but we wonder when investors will start to demand better growth.

There is no question that inflation is a key issue, with debate over whether it will prove transitory or lasting. Our concern is that as savings dwindle and consumers become more thoughtful about purchase decisions, persistently higher inflation could lead to slower growth. Similarly, companies may face margin pressure to attract buyers by absorbing cost pressures instead of passing them on to consumers. While rising input costs are generally negative for companies lacking pricing power, the Canadian stock market is tilted towards companies that actually benefit from rising costs, such as energy and materials stocks.

Portfolio positioning: We anticipate strong capital returns, good expense management and reasonable earnings growth from financials companies. We believe consumer staples companies have attractive valuations and reasonably strong pricing power in the face of inflationary pressures. We also believe Canadian railways have strong pricing power and have historically been able to raise prices to offset cost pressures.

U.S. equity

Putnam INVESTMENTS

Growth Team

We believe equity markets are poised to move higher in the first half of 2022. In our view, interest rate concerns will prove temporary and yields should settle into a historically low range, albeit higher than the all-time lows seen recently. Earnings growth should remain resilient and robust, particularly for the very largest U.S. companies and innovative information technology firms that gained ground though the pandemic.

We also believe the pandemic will have less of an impact on investor sentiment in the months and quarters to come as we acknowledge that managing the virus may become a way of life for the foreseeable future. However, challenges remain for many businesses in the physical goods economy, which will likely continue to face shortages in parts and labour as well as cost pressures for materials, shipping and labour. As active managers, we have the ability to pivot towards companies that can withstand these headwinds as well as those that will benefit from the current backdrop.

As a reminder, our thematic approach is a critical part of our investment process. Our newest growth theme is the "experience economy." It is based on a growing preference for experiences over material possessions. We've observed this trend among younger consumers for many years, but we believe the appeal of experiences will become more widespread after the pandemic lockdowns and isolation in 2020. This growing demand, combined with higher levels of personal savings, should help a number of businesses in our portfolio grow at above-market rates for an extended period of time.

Whether it's live events, luxury vacations or social communities, there's a huge and growing part of the economy that is increasingly driven by the thematic push toward experiences and travel.

U.S. equity, continued

We believe that equity markets are poised to move higher in 2022 and that earnings growth should remain resilient and robust.

Putnam INVESTMENTS

Value Team

We also believe the COVID-19 pandemic will have less of an impact on investor sentiment in the months and quarters ahead, as we acknowledge that managing the virus may become a way of life for the foreseeable future.

However, challenges remain for many businesses in the physical goods economy, which will likely continue to face shortages in parts and labour, as well as cost pressures for materials, shipping and labour. As active managers, we have the ability to pivot toward companies that can withstand these headwinds as well as those that will benefit from the current backdrop.

It is our view that the current low interest rate environment is an unnatural state of affairs, mostly driven by policy, Fed dovishness and control of inflation expectations. Our expectation is that interest rates will move modestly higher in 2022, which should be good for value stocks. We also believe investors are missing a compelling valuation gap. Value stocks remain inexpensive relative to growth stocks and inexpensive relative to their own fundamentals. Growth stocks, on the other hand, remain expensive by historical standards.

Portfolio positioning: We remain focused on relative value – analyzing the valuation of companies compared with businesses in the same sector. We also seek to manage interest-rate risk by maintaining a mix of holdings with varying interest-rate sensitivity.

U.S. equity, continued

Although higher inflation could remain a challenge, we believe that if the cost of labour increases materially, or its availability becomes less certain, businesses will find ways to become less labour intensive.

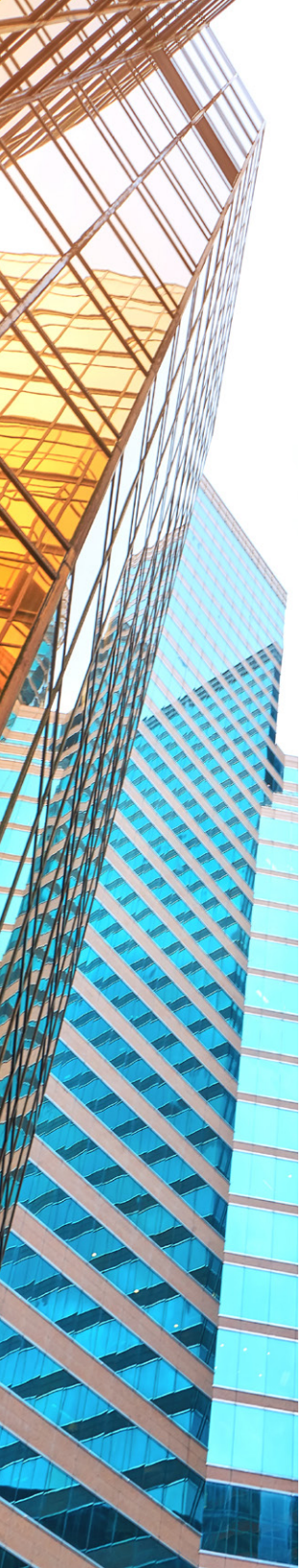
ARISTOTLE

As such, companies may be able to offset inflationary pressures by improving productivity, leaving inflation contained within what we consider to be reasonable bounds over the long term. This goes for manufacturers, which are already somewhat automated, as well as service providers, which have the potential to be disrupted by productivity innovations. For example, companies may find alternative inputs to replace commodities that face ongoing price volatility, or support increasingly tight labour forces with further automation.

With current trends in digitalization and 5G, we believe there are opportunities in the communications services and information technology sectors. The United States is somewhat unique in that a majority of cell towers are owned by third parties, allowing them to have multiple tenants per site. This leads to far higher returns on capital for U.S. tower companies compared to other countries.

In addition, the ongoing rollout of 5G services will necessitate more towers and more equipment per tower. For higher-frequency penetration, small cells and fibre will also be required, creating opportunities for companies operating in these areas.

We believe there are many users of technology that, if they can implement more efficiently than their peers, could benefit meaningfully over the coming years. Furthermore, the ongoing rollout of 5G services will necessitate more towers and more equipment per tower.



International equity

Central banks' tightening of monetary policy will likely cause some volatility in financial markets in the coming year. We believe policymakers could accept moderate swings in stock markets of between 10% to 15%.

Since larger fluctuations could have a negative impact on consumer confidence, we expect a measured policy path. Although inflation is a concern, higher inflation won't necessarily lead to a down market.

We anticipate opportunities in companies that have strong and growing addressable markets, such as those offering products that are benefiting from the transition to online consumption. We also have a positive outlook on companies that are exposed to strong generational trends, such as those set to benefit from an increasingly digital society. Specifically, companies that are creating new products and services tied to smart connectivity and enabling technology, where enormous amounts of data can be moved in an instant, could be clear winners.

Companies that have pricing power could benefit from modest inflation as they manage rising raw material and production costs, while price takers will struggle as energy and commodity prices increase.

At the country level, we see India as the area with the greatest potential. The country could benefit from positive geopolitical trends and increased direct investment from European and U.S. companies that want to establish themselves in India instead of China. On the other hand, the countries with the highest debt levels will have the most to lose as interest rates increase.

Portfolio positioning: We are positioned with a tilt towards high-quality, leading companies with strong balance sheets, a long-duration business model and a compounding growth outlook.

International equity, continued

J.P.Morgan
Asset Management

Further post-pandemic normalization of international economies will remain a theme throughout 2022. For some economies, such as Japan and selective emerging markets, governments have only begun recently to loosen restrictions on activity.

The effects of the pandemic continue to linger on the supply side as well. This is most notable in Germany, where automotive sector weakness driven by semiconductor shortages is weighing on industrial production. However, these shortages should prove temporary and ease gradually over the next six months, providing a boost to growth.

Improving supply-chain resilience, digital capabilities and automation have become even bigger priorities for companies post-pandemic and should lead to an increase in capital expenditures. The industrials and information technology sectors should both be beneficiaries of this increase in capital spending, as well as the drive to decarbonize businesses.

Some of the key growth themes we're watching include premium consumption, semiconductors, medical technology and the consumer internet space.

We also expect capital equipment companies with solid franchises to profit from a renewed investment cycle from their customers.

Inflation and how central banks respond will likely present the biggest risk to equity investors. However, even as central banks tighten their monetary policy through the tapering of asset purchases and eventually higher policy rates, the absolute interest-rate environment should remain supportive for equity valuations. We see opportunity in the financials sector, which should benefit from higher rates and a more inflationary environment.

Portfolio positioning: We have added exposure to companies in more cyclical industries that stand to benefit from the economic recovery and demand normalization, for example, capital equipment companies.

Emerging markets equity

In the coming year, we expect India, South Korea, Taiwan and Mexico to all perform well.

NORTHCAPE
CAPITAL

In the case of India and Mexico, attractive demographics and a robust macroeconomic backdrop should underpin share market returns, whilst the two North Asian markets we like should continue to benefit from improving corporate governance standards, leverage to increasing global IT capex and attractive valuations.

Expect the increasing geopolitical, economic and financial separation between the United States and China to benefit other countries, particularly India, South Korea, Taiwan, Indonesia, Thailand and Malaysia by way of increased foreign direct investment (FDI) and portfolio investment flows.

Chinese shares may well continue to struggle with excessive debt, poor governance and challenging demographics. Policy mistakes in China could lead to broader economic and financial challenges.

We see the most opportunity in areas of the market with structural growth characteristics, such as information technology, select industrials, health care, telecommunications, renewable technologies and infrastructure. These industries tend to grow at the rate of underlying gross domestic product or higher, but with lower relative volatility. We also believe high-quality financials and banks are well placed as emerging markets exit lockdowns and vaccinations allow for more normalized mobility. This should be reflected in an increase in loan volumes and lower credit costs.

The United States ultimately sets the benchmark for emerging market interest rates. A sharp rise in U.S. rates could therefore trigger a sell-off in emerging market equities, bonds and currencies, which happened in 2013. In 2022, this concern should be mitigated by much lower current account deficits and higher interest rate differentials between emerging and developed market government bonds. Nonetheless, Turkey, South Africa and Brazil appear most at risk. We expect that investors with a highly selective approach to geographic allocation, who are positioned appropriately for this risk, such as Northcape, will benefit in this environment.

Portfolio positioning: We are collectively overweight in structural growth sectors, while taking into consideration our country and sector risks.

Emerging markets equity, continued

Heading into 2022, we believe country diversification will continue to provide benefits as several leading emerging economies are rapidly developing, similar to how the U.S. economy has developed over time.

MACKENZIE Investments

We expect emerging market valuations to remain deeply discounted relative to developed markets. However, several issues are creating uncertainty.

One risk we're monitoring is a potential slowdown of global economic growth as a result of continuing new waves of the pandemic. Most emerging economies are seeing a recovery in economic activity, but to varying degrees across countries.

> The length of the pandemic, varying degrees of economic recovery across emerging market countries and central bank actions around the world are our biggest concerns for this asset class.

We're also keeping a close watch on the potential for China to expand its regulatory crackdown in and beyond technology, digital and for-profit education firms, and pollution-emitting industries. On the other hand, we're mindful that China may begin to loosen regulations if it believes current policy actions have gone too far. In addition, we're watching for any changes in trade policy between China and the United States, which could have a broad impact across emerging equity markets.

Portfolio positioning: Using a "core" focus, we aim to balance growth and value characteristics and seek to outperform in various market environments. The strategy is positioned and is managed to an "all weather" policy, i.e., the "core" focus is intended to furnish a more consistent alpha as style biases move into and out of favour.

Global equity

In the coming year, we expect that an environment of robust growth, somewhat elevated inflation and low interest rates could present a broader array of opportunities for investors compared to 2021. In particular, we think valuations and opportunities in Europe look favourable.

CAPITAL GROUP™

At the sector level, we may be in the early stages of a prolonged cyclical industrial re-investment in which companies will need to increase capital expenditures to address increasing demand. After a long period of industrial price deflation, companies may charge more for their goods. Opportunities in the industrial sector could range from companies enabling automation and electrification to companies benefiting from supply chains onshoring. In addition, a shortage in semiconductor chips persists as industrial manufacturers and device makers continue to require more to meet production.

Although still considered cyclical, the semiconductor sector has consolidated significantly, resulting in a few dominant competitors in each part of the global supply chain.

Markets will also face a number of challenges after a prolonged period of post-pandemic recovery, creating a few questions that we'll be monitoring. What will drive economic growth as fiscal stimulus and central bank quantitative easing is scaled back? Will higher inflation, which has been driven by stimulus-induced demand meeting pandemic-restricted supply, be transitory or last longer than expected, and what impact will this have on interest rates? Finally, how might the deceleration of China's economy impact markets and sectors globally?

Portfolio positioning: We are positioned with an overweight exposure to cyclicals, including industrials and financials, in addition to consumer discretionary.

Global equity, continued

Economies will continue to reopen in 2022 as vaccine programs progress more widely around the world.

T.RowePrice®
INVEST WITH CONFIDENCE

However, COVID-19 variants and differing degrees of vaccine access have led to asynchronous paths to reopening. We expect there will continue to be some volatility and potentially choppy markets as the virus moves from pandemic to endemic.

Despite near-term inflation remaining elevated, we believe the likely outlook remains one of relatively accommodative monetary policy globally, but we are monitoring how rising input and labour costs are evolving. Against this backdrop, we believe businesses with pricing power or potential to gain market share will be better positioned to withstand margin pressures.

China has an ongoing need to develop its health care system and incentivize a lower-carbon future, for the benefit of its economy and society.

China is an area we continue to monitor for both risk and opportunities. Recent government actions focused on anti-corruption, environmental protection and social equality have put pressure on stocks across sectors. While these actions have material consequences, they've also created opportunities to invest in high-quality Chinese stocks that we believe are trading at very attractive valuations. On the risk side, the U.S.-China geopolitical relationship continues to create complex dynamics for multinational corporations. It has become clear that underlying tensions between the two superpowers are structural and unlikely to be easily resolved.

Elsewhere in emerging markets, we continue to have a favourable medium-term outlook for structural growth prospects in India, Indonesia, the Philippines and Vietnam.

Portfolio positioning: We aim to maintain a balanced portfolio despite equity market uncertainties, keeping the overall portfolio beta near 1.0—not overly offensive or defensive—while focusing on picking stocks broadly across sectors and regions.

Sector equity: Canadian real estate

Real estate is positioned to be a steward in helping to address the climate crisis.

GWL REALTY ADVISORS

The ability to actively identify and manage climate and transition risks to generate a variety of outcomes, including mitigating disruptions for tenants, reducing operating costs and insurance premiums, and preserving value. This may ultimately generate superior risk adjusted performance.

Forecasts for robust e-commerce adoption and the desire to onshore inventory in the aftermath of global supply chain challenges will continue to benefit the Canadian industrial market. Combined with the prospect of limited new supply on the horizon given construction and land supply challenges, this could lead to rental and valuation gains.

In expansionary economic environments, the real estate sector has historically proven itself to be resilient as a result of its non-discretionary demand, strong income profile and inflation-hedging qualities.

Housing supply scarcity and homeownership affordability, which has significantly outpaced rental rate growth, will continue to support Canada's purpose-built rental housing market. Collectively, these factors contribute to a favourable outlook for multi-residential properties.

The economy's overall health and trajectory are important barometers for real estate performance. Shorter lease duration strategies used by multi-residential apartments and small bay industrial assets can be particularly effective in these environments.

Portfolio positioning: We have purposefully increased exposure to the industrial and multi-residential sectors to above benchmark weightings. We continue to participate in ground-up development within prioritized sectors to directly participate in associated value creation.

Sector equity: Science and technology

As the world begins to move on from the pandemic, the opportunity set within the information technology sector is broadening, as the shift to the cloud and rapid adoption of software improves efficiencies and accelerates business growth.

MACKENZIE Investments

The basic building block of technology is semiconductors. Over the longer term, the demand for chips will be robust given the breadth of use from servers in data centres to automation in factories to electric vehicles and connected homes. This will continue to create opportunities for those semiconductor companies that are perceived to be leaders in their respective fields. However, although demand for semiconductors remains strong, growth will be a concern in the coming months as supply shortages peak and inventory levels normalize. The multiple investors are willing to pay will depend on where the industry is perceived to be within its cycle.

Two types of information technology companies are poised for growth in 2022: those most likely to benefit from economic reopening, and those supportive of structural changes such as digitization, online commerce and cloud-native software.

A key risk facing the information technology sector as a whole is the challenging growth comparisons some companies are up against, particularly those that benefited when the economy was restricted during the pandemic. A number of high-growth, high-multiple companies could be at risk of substantial re-ratings should their growth slow to disappointing levels. Increased regulatory action is another potential risk, particularly for U.S. mega-capitalization firms.

Portfolio positioning: We have an overweight position in the semiconductor group, with a tilt towards leading edge, fabless design companies that have strong representation in end markets more geared to enterprise spending and data centre exposure.

Responsible investing

J.P.Morgan
Asset Management

Environmental, social and governance (ESG) concerns have evolved over recent decades, from their protest and reactive roots into a constructive, proactive movement. These developments have made ESG more accessible to investors who may not consider themselves to be politically or socially active. As a result, ESG has brought money off the sidelines, fueling a growing space within the asset management business. Despite strong growth in recent years, ESG investing remains for many a non-traditional offshoot of a much larger investment universe. For a number of reasons, this is likely to change.

First among them is the continuing shift in global sentiment toward a more ESG-conscious framework. The COVID-19 pandemic, as an example, shed new light on income and wealth inequality, as a huge disparity in stock market performance and economic recovery left many individuals behind. Extreme global weather has made the threat of climate change a tangible reality rather than an abstract concept. Governments around the world are taking steps toward fighting climate change, with net-zero emissions targets, investments in infrastructure and sensible regulatory environments.

Technological innovation, too, will play a role. Most immediately relatable is the recent maturation of RNA-based vaccines, which went from being fringe medical theory to the front-line of the pandemic in an unprecedented period of time. The deep disparities in medical care around the world can be addressed through technology like this by advancing and scaling medical solutions to more people, more efficiently. Innovation extends beyond pharmaceuticals, of course. The transition to renewable resources, as an example, is an inevitability, as fossil fuels will by definition run out. The ensuing breakthroughs in green technology—some of which have already happened, some of which are surely yet to come—present another attractive opportunity for investors looking to be in the vanguard of future-defining trends.

The strength of these trends will be amplified as ESG investing becomes a more holistic phenomenon. To date, the majority of heavy lifting in the space has been driven by large institutional investors. However, the retail component is likely to grow in significance. A good portion of this will be driven through the democratization of investing. Abundant free time during the pandemic, government stimulus and the rise of frictionless online brokerage platforms have worked in concert to make investing easy, cheap and, importantly, accessible. Of course, without interest, accessibility means nothing, which will put renewed pressure on managers to educate investors, especially younger individuals who are much more politically and socially engaged than their parents. This could include dispelling performance-related myths or introducing ESG as more than a method to punish certain companies.

We expect above-trend growth through the end of 2022 and see further upside for equity earnings as economies around the

Responsible investing, continued

globe reopen fully from the COVID-19 pandemic and pent-up demand materializes. While the momentum of equity returns is moderating, we do not expect a change in the direction over the coming months. Policymakers around the globe remain committed to supporting nominal growth, and this, in our view, provides a supportive backdrop for risk assets.

While the economic recovery is underway, we remain balanced and continue to monitor incremental risks that could represent challenges for portfolios. Within equities, we maintain exposure to quality companies, with a focus on high-conviction stocks and take advantage of market dislocations for compelling stock-selection opportunities. Within equities, we are optimistic on cyclical markets such as Europe and Japan, as they are well-geared for further recovery. Within global fixed income, the portfolios are overweight spread risk in investment grade and high yield credit and remain underweight duration on a headline level.

We believe investors will increasingly focus on broadening their investment in themes across the sustainable investing landscape. These trends include adapting supply chains to reduce deforestation and partnering with impacted communities. We also believe investors will become more interested in the reduction of methane emissions as the United States and European Union committed to reducing methane emissions by 30% over the next decade.

Investing in our future

Despite the uncertainty of 2020 and 2021, we continued to invest in our wealth business, launching nine new global segregated funds and 18 new mutual funds. In doing so, we teamed up with some of the world's most sought-after institutional portfolio managers – true asset class experts delivering specialized capabilities.

We also introduced a new suite of sophisticated managed solutions – Canada Life Risk-Managed Portfolios™ – bringing together traditional and non-traditional investments and providing advisors with solutions to help clients navigate heightened volatility.

With environmental, social and governance challenges looming larger every day, we also identified a growing need to address clients' sustainability-related concerns and the risks these issues pose to investment portfolios. We responded with a new suite of sustainable investing solutions – Canada Life Sustainable Portfolios™. These globally diversified, multi-asset portfolios help clients invest in a way that aligns with their values without sacrificing returns.

Visit **canadalifeinvest.ca** to learn more.

Fund listing associated with Canada Life's 2022 Market Outlook

Investment managers	Mutual funds	Segregated funds
Aristotle	Canada Life Pathways U.S. Concentrated Equity Fund	Pathways U.S. Concentrated Equity
Beutel Goodman	Canada Life Canadian Value Balanced Fund	Canadian Value Balanced
Brandywine Global	Canada Life Pathways Global Multi-Sector Bond Fund	Pathways Global Multi-Sector Bond
C Worldwide Asset Management	Canada Life Pathways International Concentrated Equity Fund	Pathways International Concentrated Equity
Capital Group	N/A	Global Equity
GWL Realty Advisors (GWLRA)	N/A	Real Estate
Irish Life Investment Managers	Canada Life Risk-Managed Conservative Income Portfolio	Risk-Managed Conservative Income Portfolio
	Canada Life Risk-Managed Balanced Portfolio	Risk-Managed Balanced Portfolio
	Canada Life Risk-Managed Growth Portfolio	Risk-Managed Growth Portfolio
J.P. Morgan Asset Management	Canada Life International Equity Fund	International Equity
	Canada Life International Growth Fund	International Growth
	Canada Life Sustainable Conservative Portfolio	Sustainable Conservative Portfolio
	Canada Life Sustainable Balanced Portfolio	Sustainable Balanced Portfolio
	Canada Life Sustainable Growth Portfolio	Sustainable Growth Portfolio
Mackenzie Investments	Canada Life Canadian Tactical Bond Fund	Canadian Tactical Bond
	Canada Life Floating Rate Income Fund	Floating Rate Income
	Canada Life North American High Yield Fixed Income Fund	North American High Yield Fixed Income

Fund listing associated with Canada Life's 2022 Market Outlook, continued

Investment managers	Mutual funds	Segregated funds
Mackenzie Investments	Canada Life Unconstrained Fixed Income Fund	Unconstrained Fixed Income
	Canada Life Canadian Equity Fund	Canadian Equity
	Canada Life Canadian Dividend Fund	Canadian Dividend Fund
	Canada Life Canadian Focused Growth Fund	Canadian Focused Growth
	Canada Life Canadian Low Volatility Fund	Canadian Low Volatility
	Canada Life Pathways Emerging Markets Large Cap Equity Fund	Pathways Emerging Markets Large Cap Equity
	Canada Life Science & Technology Fund	Science & Technology
Portfolio Solutions Group	Canada Life Conservative Portfolio	Conservative Allocation
	Canada Life Moderate Portfolio	Moderate Allocation
	Canada Life Balanced Portfolio	Balanced Allocation
	Canada Life Advanced Portfolio	Advanced Allocation
	Canada Life Aggressive Portfolio	Aggressive Allocation
Putnam Investments	N/A	Pathways U.S. Equity
	Canada Life U.S. All Cap Growth Fund	U.S. All Cap Growth
	Canada Life U.S. Value Fund	N/A
Northcape Capital	Canada Life Pathways Emerging Markets Equity Fund	Pathways Emerging Markets Equity
T. Rowe Price	Canada Life Global Growth Balanced Fund	Global Growth Balanced
	Canada Life Global Multi-Sector Fixed Income Fund	Global Multi-Sector Fixed Income

Explore our full fund listing

Fixed income	Mutual funds	Segregated funds
Canadian equity	Mutual funds	Segregated funds
U.S. equity	Mutual funds	Segregated funds
Global equity	Mutual funds	Segregated funds
Foreign, specialty and alternative	Mutual funds	Segregated funds
Balanced	Mutual funds	Segregated funds

2022 Market Outlook

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