HEWARD
INVESTMENT MANAGEMENT INC.

The Global Economy Remains Resilient, But Wobbly! The Pivot will be Monetary Easing by Global Central Banks

OVERVIEW

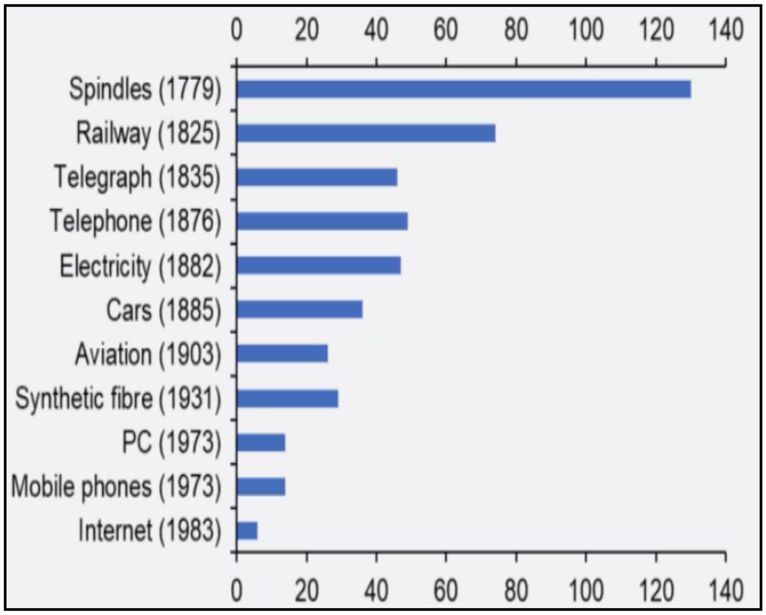
After previously forecasting global growth of 2.9% for 2024, the International Monetary Fund (IMF) now expects global economic output to expand 3.2%. However, while forecasting stronger growth, the IMF also said that the prospects for longer-term growth are less rosy. The improved outlook owes mainly to the continued strength of the U.S. economy, which has defied expectations of a slowdown even as the Federal Reserve holds interest rates at their highest level in more than two decades. China, Russia, India and Brazil, the largest developing economies, are also seen growing somewhat faster than the IMF predicted six months ago.

For the past few years, central banks around the world have been trying to slow inflation by tamping down the kind of demand that leads to price pressures. It's been a long and windy path, but some countries are now lowering interest rates, citing sufficient progress in their inflation fights. In the US, with a rate drop seemingly months off at best, the new line from desperate investors is that the Federal Reserve might wait too long to lower rates, risking a downturn (the kind prominent economists and Wall Street veterans alike have repeatedly been wrong about). But Fed Chair Jerome Powell and his colleagues do seem ready to declare victory for a segment of the economy that has fueled inflationary pressures. America's recently white-hot employment picture has cooled to about where it was on the eve of the pandemic. That's due in part to a surge in immigration, with newly arrived individuals taking a lot of jobs Americans don't want. As a result, the rebalancing of the American jobs market has occurred without a real rise in unemployment (Bloomberg).

The global economy's latest transformational force Artificial Intelligence (AI) is poised to shake up one of the oldest (Trade). A survey conducted by Allianz Trade Global confirmed that companies are optimistic about the its potential benefits, with Poland and China already heavily banking on it as a tool to enhance supply-chain management, increase export opportunities and facilitate communication. The anticipated boost in productivity is expected to increase global trade, increase opportunities while decreasing costs. Digital trade should also benefit, accelerating cross-border movement of data and digitally delivered services. Trade in goods such as computers, electronics and robotics should be among the main beneficiaries. However, based on survey responses, it won't necessarily be a smooth transition. The landscape is changing so rapidly that it'll be a challenge for authorities to keep up and maintain continuity across jurisdictions in a burgeoning new space to regulate. The early adopters are most likely to be located in developed economies and consequently AI is poised to deepen the divide between developed and emerging economies, exacerbating the existing digital divide.

Metal is back. Some of the world's biggest energy trading companies are returning to the sector years after getting burnt in notoriously difficult markets. Vitol Group, Gunvor Group and Mercuria Energy Group are among the traders building out their metals teams as they look to deploy capital generated by record profits. The shift comes as forecasters have become bullish on copper, aluminum and other metals, where long-anticipated production shortfalls are starting to manifest. Many commodity houses also see strong links between metals usage and power markets, another growth area for traders. For the oil traders, there's a whole energy transition story, but they've also got the cash to take significant positions in metals. A lot of metal traders should be worried, they're going to lose market share.

TECHNOLOGY ADOPTION LAGS (YEARS)



Source: American Economic Journal, Capital Economics

UNITED STATES

In May, the Federal Open Market Committee (FOMC) released the minutes of its most recent meeting, which reinforced the "higher for longer" profile for policy rates. Earlier, the latest Purchasing manager's Index (PMI) came in decidedly weaker than forecasted as output came close to stagnating. A measure of new orders shrank at a faster pace than expected. That data, June's unexpected fall in U.S. producer prices and the release of government data showing consumer prices unchanged for the first time in nearly two years gave financial markets hope that the Fed would start cutting interest rates in September. But, on the same day, Fed officials pushed out the start of rate cuts to perhaps as late as December, with policymakers projecting only a single quarter-percentage-point reduction for this year. The end of June personal Consumption Expenditure deflator figures have confirmed, that the Fed's favored inflation gauge, is steadily declining. While it is still above target, it is now below 3%, and with the direction of travel seemly clear, some believe that an earlier cut is still possible. With companies still spending on labour and capital, it's tough to be too negative about economic growth right now. Another key data point for the Fed remains the housing market. Despite elevated mortgage rates, home prices have continued their ascent. Home prices tend to lead the CPI home shelter category, specifically rents. The Fed's progress on getting inflation to their 2% target hinges in large part on residential rent data. The Fed has also conceded that inflation remains a challenge thanks to residual effects from wage rises that followed the pandemic.

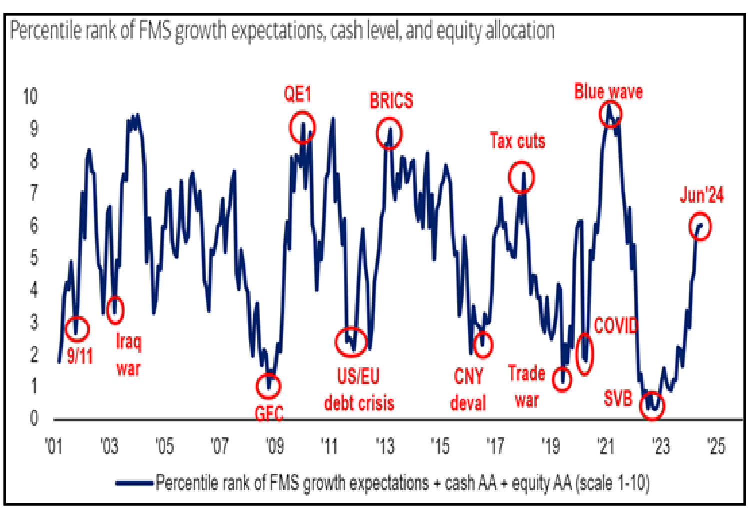
CANADA

In June the Bank of Canada (BoC) became the first G7 central bank to kick off an easing cycle. Stating that conditions are different today relative to the U.S., the BoC moved before the Federal reserve. Confident that inflation was headed back towards 2%, the BoC also said it was "reasonable to expect further cuts" if the progress continued. However, the May inflation rate unexpectedly accelerated, largely on higher prices for services, while key measures of core inflation edged up as well. Meanwhile, a pick up in global activity resulted in an increase of Canadian exports volumes. Shipments of energy products to the U.S., metals and non-metallic mineral products all contributed to the increase. Canada's unemployment rate ticked up to 6.2% in May, as the job market continued to soften as high interest rates weigh on consumers and businesses. While the economy did add more jobs than expected, job growth did not keep up with population growth. Also, more Canadians are finding themselves working part-time because they don't have better options. Wage growth however, remains strong as hourly wages rose 5.1% in May. The BoC continues to monitor shelter scarcity and high home ownership acquisition costs which are conspiring to push rents higher (up 9.3% YoY - Rentals.ca). An Alberta government commissioned report highlighted the fact that Canadian oil & gas companies facing a federally imposed emissions cap, will decide to cut their production rather than invest in too-expensive carbon capture and storage technology. The report supported Alberta's position (contradicting Ottawa) that a mandated cap would lead to severe economic consequences.

EUROPE

The European Central Bank (ECB) lowered interest rates by a quarter point at its June meeting, widening a policy gap with the Federal Reserve. In its statement, the ECB said that future interest-rate decisions will be based on incoming data, and that it is not pre-committing to a particular rate path. Given the recent hotter than expected economic data points, many are questioning the timing of the cut. In March, the bloc unveiled 1.5B euro plan aimed at buying more of its defense equipment domestically. This effort for the defense industry is just one example of Europe's willingness to break longstanding taboos in a bid to build up domestic manufacturing, which is losing ground in the race to build industries of the future. Brushing aside Germany's warnings

BANK OF AMERICA GLOBAL FMS SENTIMENT REMAINS MOST BULLISH SINCE NOVEMBER 2021



Source: BofA Global Fund Manager Survey

US MEDIAN SALES PRICE: TOTAL EXISTING HOMES

Source: Strategas

that the move could trigger a trade war with Beijing, the EU is set to impose tariffs on Chinese EVs. But the tariffs may promote localisation of EV manufacturing similar to the multi-billion-dollar automobile/battery manufacturing investments in China friendly Hungary. It's getting expensive for Europe to avoid Russian gas. European Union countries spent more than $630 billion on importing gas from alternative sources over 2021-2023 (Rosneft). Increased gas costs are "eating up" the margins of such energy-intensive industries as steel, fertilizers, chemicals and glass. While it appears that the U.K. economy is beginning to see improvement, the pace of growth at the start of the year is unlikely to be sustainable through 2024. However, with real wages advancing, a tight labour market and both consumer and business confidence improving, the economy is likely to continue to expand.

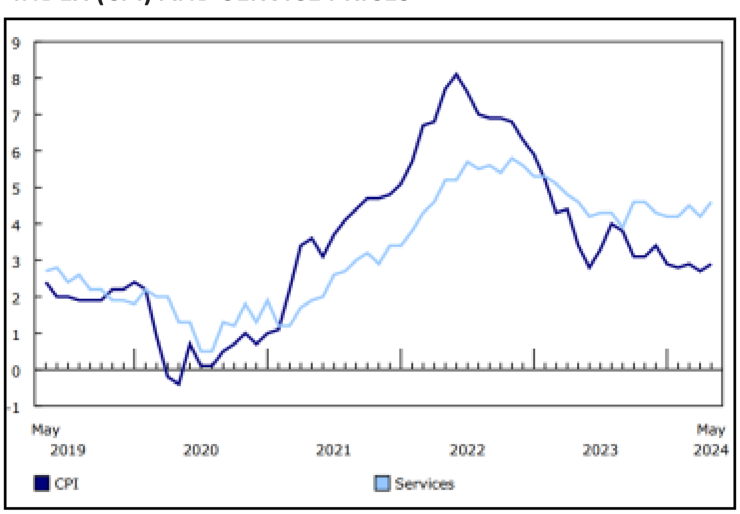
EMERGING & DEVELOPING MARKETS

While China's economy remains challenged, the country may be closer to finding its economic footing. While not expecting a monetary or fiscal bazooka by China's government, there are some specific catalysts for potential growth and recovery as well as some key traits and broad initiatives that could provide positive economic benefits. In the first few months of the year, industrial activity strengthened and recruiters reported some green shoots in hiring. Even though confidence remains weak and people remain worried about the property market, they are spending, particularly on mass market ecommerce platforms and discretionary areas like dining, travel and entertainment. Business owners confirm that the economy is tough but they are trying to adapt. Some are successfully finding opportunities in overseas markets and others are focusing more on efficiency and profit margins rather than top line growth. To try to put a floor under the real estate market, China's government has turned to an old solution. It wants state owned enterprises to step in to buy unsold property and turn them into affordable housing. This will be funded by the People's Bank of China (PBoC) who will provide cheap loans to key local banks. According to the Bank of Japan (BoJ), Japan is likely close to completely overcoming its decades-long deflation. In March, the BoJ decided to raise interest rates for the first time since 2007, saying a positive cycle of wages and prices are finally starting to work. The wide gap between Japanese and other global rates has been felt in the currency market, and additional intervention by the Ministry of Finance is being considered to quell the yen weakness.

COMMODITIES

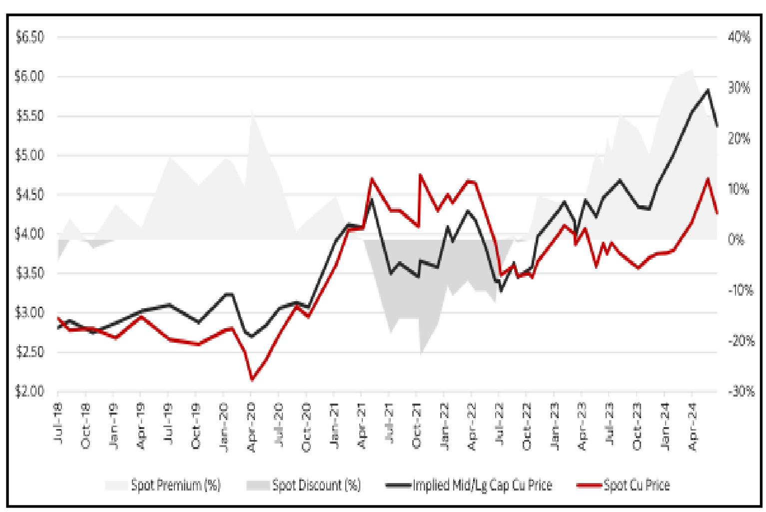
The key for sentiment on crude has been the market confusion around commentary from OPEC+ on the return of barrels and group cohesion. Post their initial announcement, we have seen the market better appreciate the group's message on how they will take a judicious and data-dependent path forward on any release of spare barrels – thus providing more confidence and somewhat of a floor on pricing. The positive multi-year story for copper is just getting started, but will take time to unravel. While it has lost some of its lustier, the energy transition story, including renewable energy, Electronic Vehicles (EV's) and the associated grid improvements will drive strong demand for copper. Meanwhile, the data centre build out could also add a new layer of demand (the significance of which depends on the copper content assumption). This growing demand is set against an aging supply base without much new supply committed to come online post 2025, and it's getting harder to build new mines due to rising costs and social issues. For this reason, a period of higher prices is needed to spur investment in new copper mines. Having been supported by high central bank buying, gold prices could see more strength in H2/24. Additional tailwinds could be realized from H2 uncertainties related to US elections, fiscal and monetary policy actions, and geopolitical tensions. Investment demand has been reasonably steady even after accounting for larger outflows from Gold ETFs. While up year-to-date, gold equities have underperformed their operating leverage, in large part due to disappointing cost guidance issued in Q1 vs. prior company indications.

CANADA: 12 MONTH CHANGE IN THE CONSUMER PRICE INDEX (CPI) AND SERVICE PRICES



Source: Statistics Canada

IMPLIED COPPER PRICES IN PRODUCER EQUITY PRICES TIME SERIES



Source: FactSet; Scotiabank GBM estimates

STRATEGY

Its difficult for equity investors not to remain bullish. While there are signs of softening economic momentum in the U.S., all signs point to the Fed successfully engineering a “soft landing”. Also, U.S. policymakers seem intent on leveraging every tool at their disposal to prime the pump ahead of domestic elections. The tide may also be turning on the international front. In Europe, the ECB did cut rates, but their decision was not supported by the stronger data in the Surprise Economic Data Index. In China, authorities have implemented specific catalysts to support both property and equity markets, as well as targeted manufacturing. If successful, these should support both consumer confidence and spending. But, while the backdrop is supportive in the near-term, it is difficult to not harbor some skepticism. Equity valuations (led by AI related stocks) have shifted higher into the upper strata of their historical range. And, while there appears little to put markets into abeyance, history suggests rate cuts are better feared than hoped for. While cautious (modestly underweighted equities) we are beginning to having some interest in foreign markets. Mexico should be a benefactor of deglobalization, while China should benefit from new government initiatives. Also, global growth and lack of new supply initiatives should support select industrial metals, while currency debasement will lend support to Gold and other precious metals. Continuing positive economic news flows and sticky inflation numbers caused a back-up in bond yields early in the quarter. But, just as most pundits and investors were about to throw in the towel on rate cuts, reality set in as a variety of less buoyant economic data was released. Central banks in several countries, including Canada, started cutting crucial short-term rates, allowing bond markets to rebound and ending the quarter on a positive (albeit modest) note. Current yields however, are now discounting a fair bit of future rate cuts by policymakers, meaning that it would take a lot of negative economic news to bring those to fruition. Given current levels, we expect to see modest improvements in bond prices near term. Although we lengthened the duration of our bond holdings, we continue to keep the duration significantly below benchmark. We have increased our allocation to government bonds at the expense of corporate bonds as the spreads have come down to historically low levels.

FORECAST 2024	CURRENT 30-JUNE-2024	2024 RANGE	2024 YEAR-END
INTEREST RATES			
Bank of Canada Overnight	4.75%	4.25% - 5.00%	4.25%
Federal Funds Rate	5.50%	5.00% - 5.50%	5.00%
10-year Canadian Treasury	3.50%	3.00% - 3.85%	3.05%
10-year US Treasury	4.40%	3.85% - 4.65%	3.95%
COMMODITIES			
Gold (US$/oz.)	$2,340	$1,990 – 2,425	$2,400
Oil WTI (US$/lb)	$81.54	$72.00 –87.00	$84.00
Copper (US$/bbl)	$4.39	$ 3.65 –5.11	$4.90
Natural Gas	$2.60	$1.58-$3.31	$2.90
MARKETS			
S&P/TSX Composite Index	21,876	20,585 - 22,800	22,650
S&P 500 Index	5,460	4,689 - 5,650	5,575
MSCI World	3,512	3,114 - 3,850	3,800
CANADA DOLLAR/US DOLLAR	$0.73	$0.72 – $0.76	$0.75

2115 rue de la Montagne, Montreal, QC H3G 1Z8
Telephone: (514) 985-5757
Toll Free: 1-800-567-5257
Email: info@heward.com
www.heward.com

HEWARD
INVESTMENT MANAGEMENT INC.