PRESS RELEASE

Vanguard Releases 2024 Economic and Market Outlook

Report Details Implications of Higher Interest Rate Environment

TORONTO, ON (December 12, 2023)—Vanguard today released its annual outlook and analysis on global financial markets and economies. This year's report, "A Return to Sound Money," provides investors a comprehensive economic roadmap and articulates Vanguard's updated long-term investment thesis. Vanguard's global team of economists explore essential themes that will drive the trajectory of markets, including the effect of "higher-for-longer" interest rates, policy shifts, asset class valuations, and more.

"Elevated interest rates will become the new norm for many economies globally," said Joe Davis, Global Chief Economist and Global Head of Investment Strategy Group. "There is a powerful paradox to this new higher-rate world—while near-term financial market volatility is likely to remain elevated, long-term and well diversified investors stand to benefit from a return to positive real rates."

Higher rates a welcomed development for investors

For consumers and businesses, higher interest rates force prudence in borrowing decisions, increase the cost of capital, and encourage saving. For governments, rates will necessitate a reexamination of fiscal outlooks in the near term. The new reality of rising deficits and higher interest rates will elevate concerns about fiscal sustainability. And, barring a drastic productivity rebound, the chances of avoiding a recession remain low.

As central banks feel more confident in achieving inflation targets, policy rate cuts in the second half of 2024 will become more likely. However, Vanguard research offers evidence that the neutral interest rate—the rate at which monetary policy is neither expansionary nor contractionary—has increased, driven primarily by demographics, productivity growth, and higher structural fiscal deficits. Policy rates are therefore likely to remain at heightened levels compared with periods following the Global Financial Crisis and COVID-19 pandemic.

Higher interest rates are a welcome development, according to Vanguard researchers, despite the expected increased volatility while the market adjusts to this new normal. For a well-diversified, long-term investor, higher rates create a solid foundation for risk-adjusted returns going forward.

Long live 60/40

Vanguard's global outlook is designed to guide investors in maintaining a long-term perspective and support the case for portfolio diversification. Despite misguided criticism from skeptics, the case for a balanced portfolio is strong. Long-term investors in 60/40 portfolios have seen a dramatic rise in the probability of achieving a nominal return of 7% (currency in USD). This is due in part to higher interest rates spurring a substantial increase in bond return expectations. For equities, however, the higher-rate environment depresses asset price valuations across global markets while squeezing profit margins, as corporations find it more expensive to issue and refinance debt.

"This rise in interest rates is the single best economic and financial development in 20 years for long-term investors," concludes Mr. Davis. "We believe this is a secular trend that will last not just months, but years."

Vanguard's updated 10-year annualized return projections:

- Global bonds: 4.7%-5.7%
- Canadian bonds: 4.3%-5.3%
- U.S. bonds: 4.8%-5.8%
- Global equities (developed): 7.0%-9.0%
- Global equities (emerging): 6.6%-8.6%
- Canadian equities: 5.3%-7.3%
- U.S. equities: 4.2%–6.2%

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About Vanguard

Canadians own CAD $87 billion in Vanguard assets, including Canadian and U.S.-domiciled ETFs and Canadian mutual funds. Vanguard Investments Canada Inc. manages CAD $57 billion in assets (as of September 30, 2023) with 37 Canadian ETFs and six mutual funds currently available. The Vanguard Group, Inc. is one of the world's largest investment management companies and a leading provider of company-sponsored retirement plan services. Vanguard manages USD $7.8 trillion (CAD $10.8 trillion) in global assets, including over USD $2.2 trillion (CAD $3 trillion) in global ETF assets (as of September 30, 2023). Vanguard has offices in the United States, Canada, Mexico, Europe, Australia and Asia. The firm offers 430 funds, including ETFs, to its more than 30 million investors worldwide.

Vanguard operates under a unique operating structure. Unlike firms that are publicly held or owned by a small group of individuals, The Vanguard Group, Inc. is owned by Vanguard's U.S.-domiciled funds and ETFs. Those funds, in turn, are owned by Vanguard clients. This unique mutual structure aligns Vanguard interests with those of its investors and drives the culture, philosophy, and policies throughout the Vanguard organization worldwide. As a result, Canadian investors benefit from Vanguard's stability and experience, low-cost investing, and client focus. For more information, please visit vanguard.ca.

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Commissions, management fees, and expenses all may be associated with investment funds. Investment objectives, risks, fees, expenses, and other important information are contained in the prospectus; please read it before investing. Investment funds are not guaranteed, their values change frequently, and past performance may not be repeated. Vanguard funds are managed by Vanguard Investments Canada Inc. and are available across Canada through registered dealers.

IMPORTANT: The projections and other information generated by the Vanguard Capital Markets Model (VCMM) regarding the likelihood of various investment outcomes are hypothetical in nature, do not reflect actual investment results, and are not guarantees of future results. Distribution of return outcomes from VCMM are derived from 10,000 simulations for each modeled asset class. Simulations as of September 30, 2023. Results from the model may vary with each use and over time.

The VCMM projections are based on a statistical analysis of historical data. Future returns may behave differently from the historical patterns captured in the VCMM. More important, the VCMM may be underestimating extreme negative scenarios unobserved in the historical period on which the model estimation is based.

The Vanguard Capital Markets Model® is a proprietary financial simulation tool developed and maintained by Vanguard’s primary investment research and advice teams. The model forecasts distributions of future returns for a wide array of broad asset classes. Those asset classes include U.S. and international equity markets, several maturities of the U.S. Treasury and corporate fixed income markets, international fixed income markets, U.S. money markets, commodities, and certain alternative investment strategies. The theoretical and empirical foundation for the Vanguard Capital Markets Model is that the returns of various asset classes reflect the compensation investors require for bearing different types of systematic risk (beta). At the core of the model are estimates of the dynamic statistical relationship between risk factors and asset returns, obtained from statistical analysis based on available monthly financial and economic data from as early as 1960. Using a system of estimated equations, the model then applies a Monte Carlo simulation method to project the estimated interrelationships among risk factors and asset classes as well as uncertainty and randomness over time. The model generates a large set of simulated outcomes for each asset class over several time horizons. Forecasts are obtained by computing measures of central tendency in these simulations. Results produced by the tool will vary with each use and over time.

All investing is subject to risk, including the possible loss of the money you invest.