

Fiera Capital Global Asset Allocation

Economic Outlook & Investment Strategy January 2020

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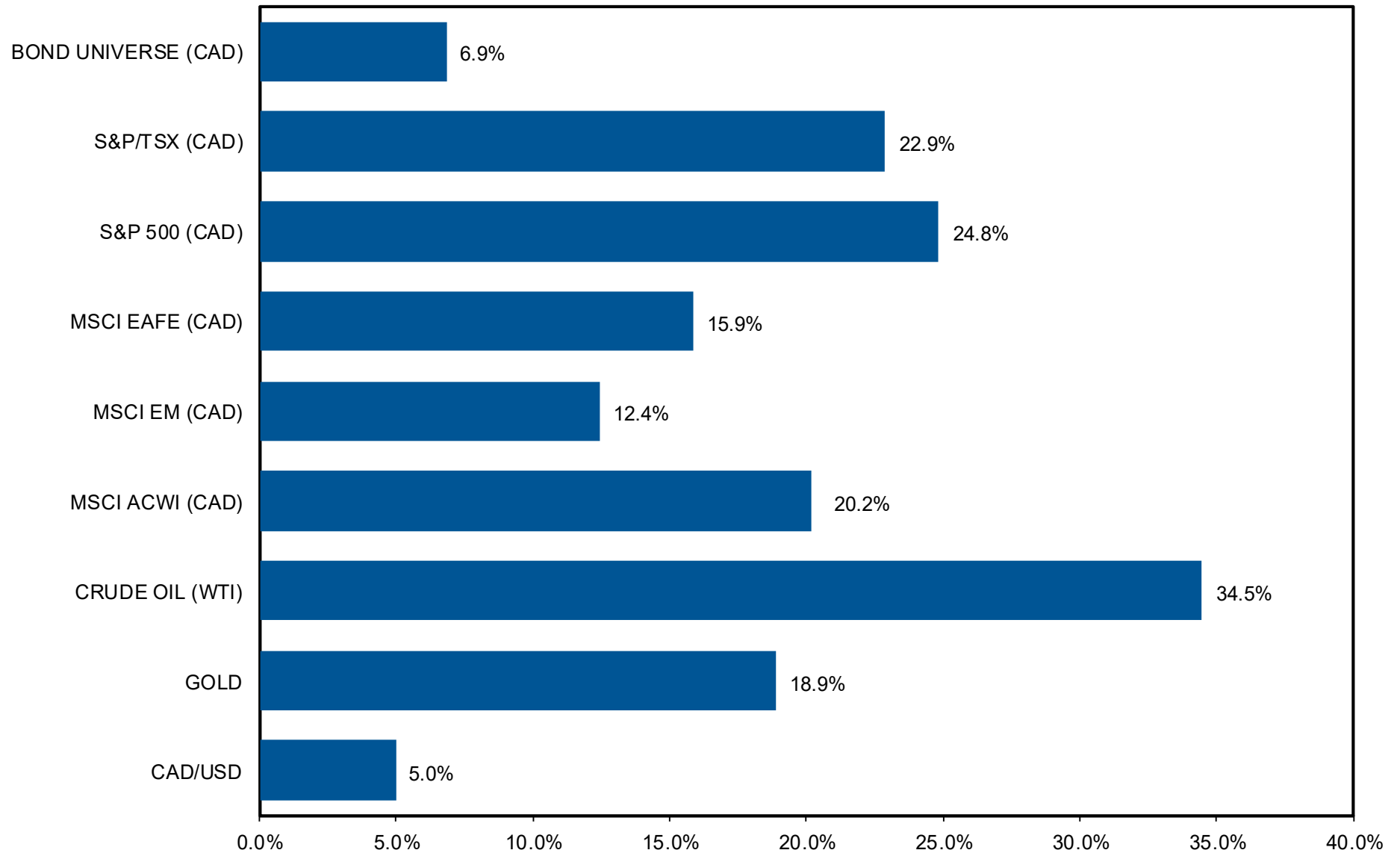
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FINANCIAL MARKET OVERVIEW



FINANCIAL MARKETS OVERVIEW

2019 Returns

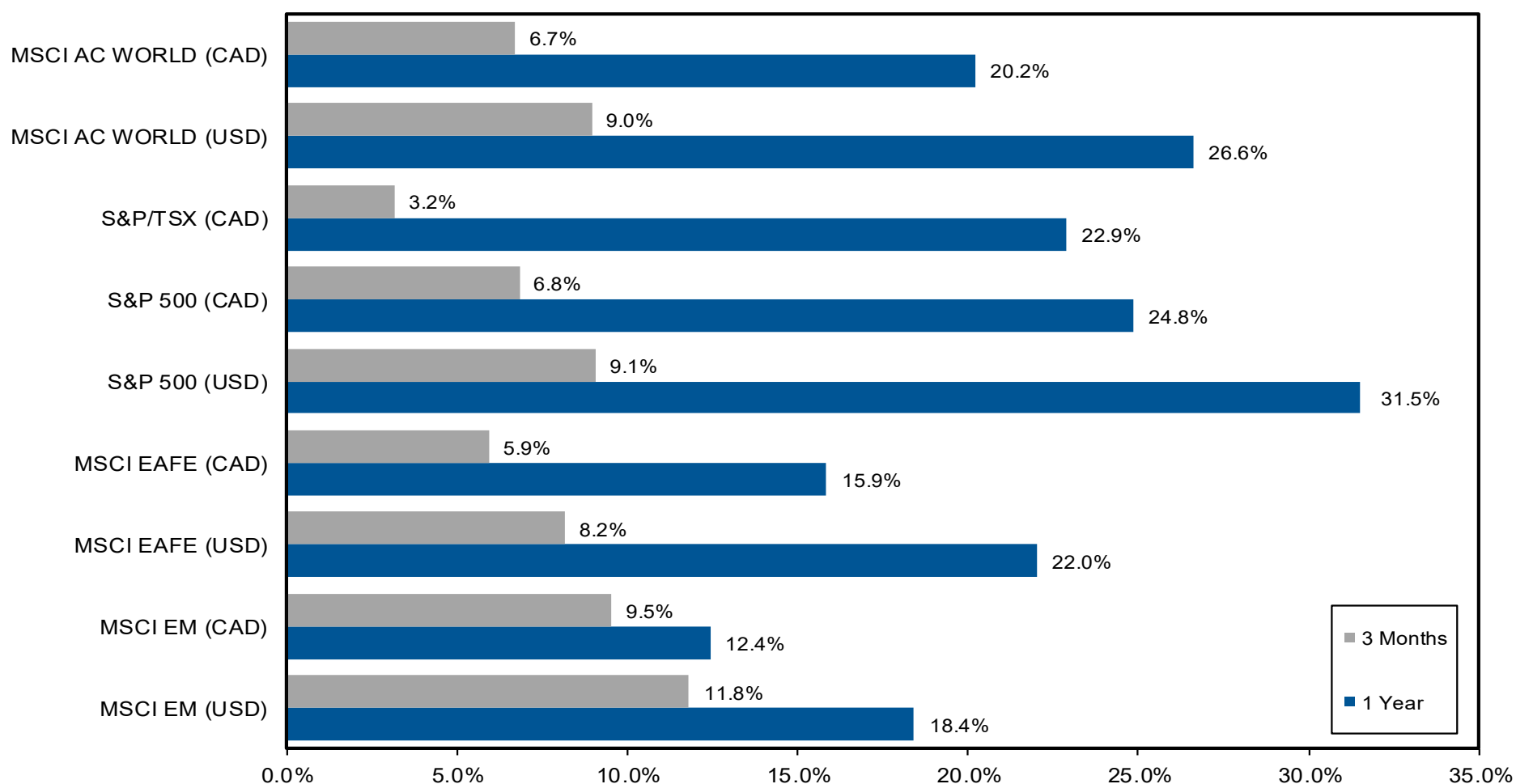


EQUITY MARKETS

December 31, 2019



Investors headed towards 2020 in an optimistic mood amid receding trade tensions, the increased likelihood of a smooth Brexit scenario, and the plethora of central bank support – while some nascent signs off a stabilizing global economy also buoyed risk appetite at year-end. Global equity markets had a blockbuster finish to 2019, with the MSCI All Country World breaking all-time highs.

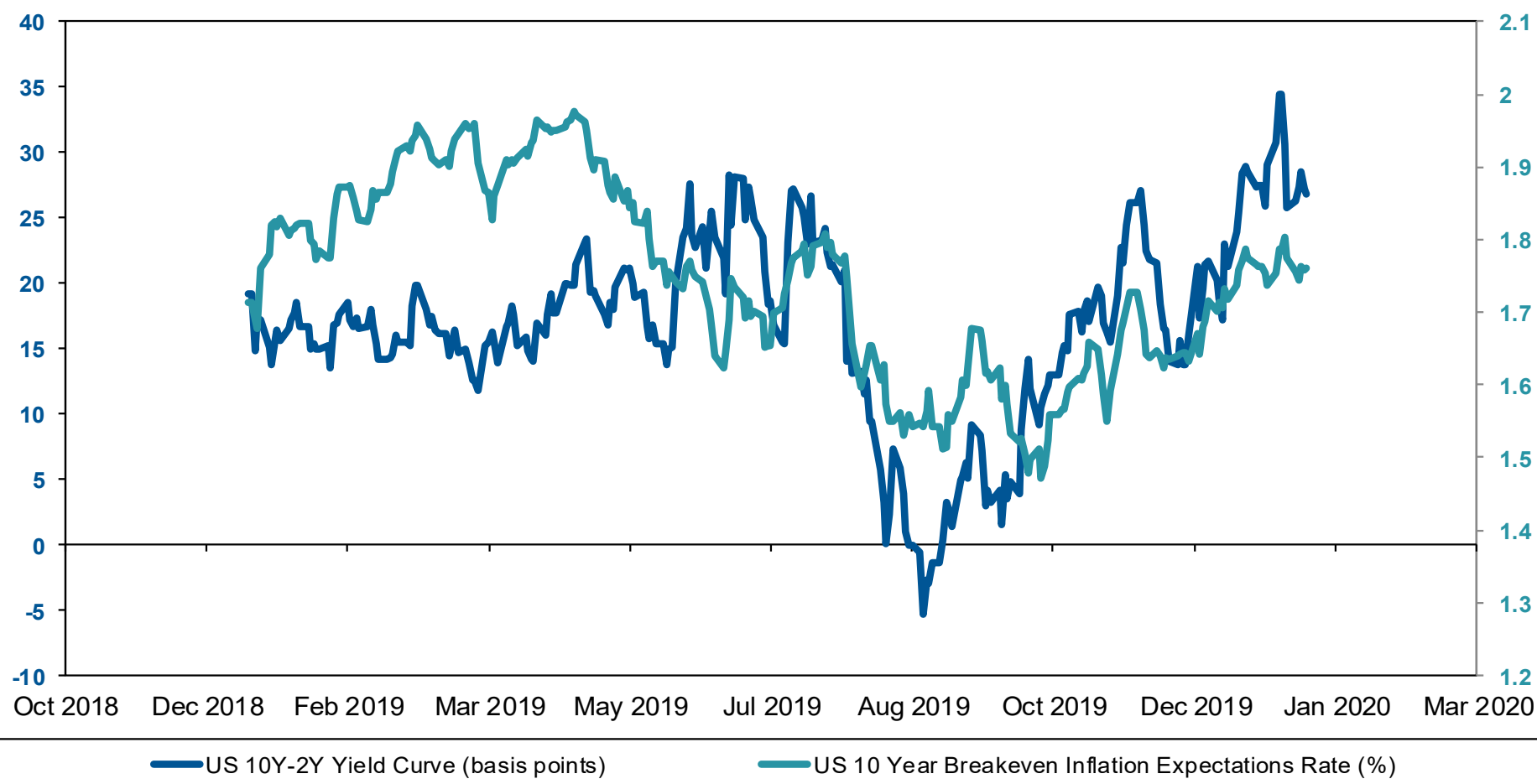


FIXED INCOME MARKETS

December 31, 2019



Fixed income markets posted negative results during the fourth quarter. Yield curves bear-steepened, with the biggest upward move taking place in the long-end of the curve as the improved growth outlook sparked a revival in inflation expectations. Meanwhile, the short-end was virtually unchanged reflecting expectations for steady central bank policy next year. Finally, credit spreads narrowed and corporate bonds outperformed their government peers at the end of 2019.

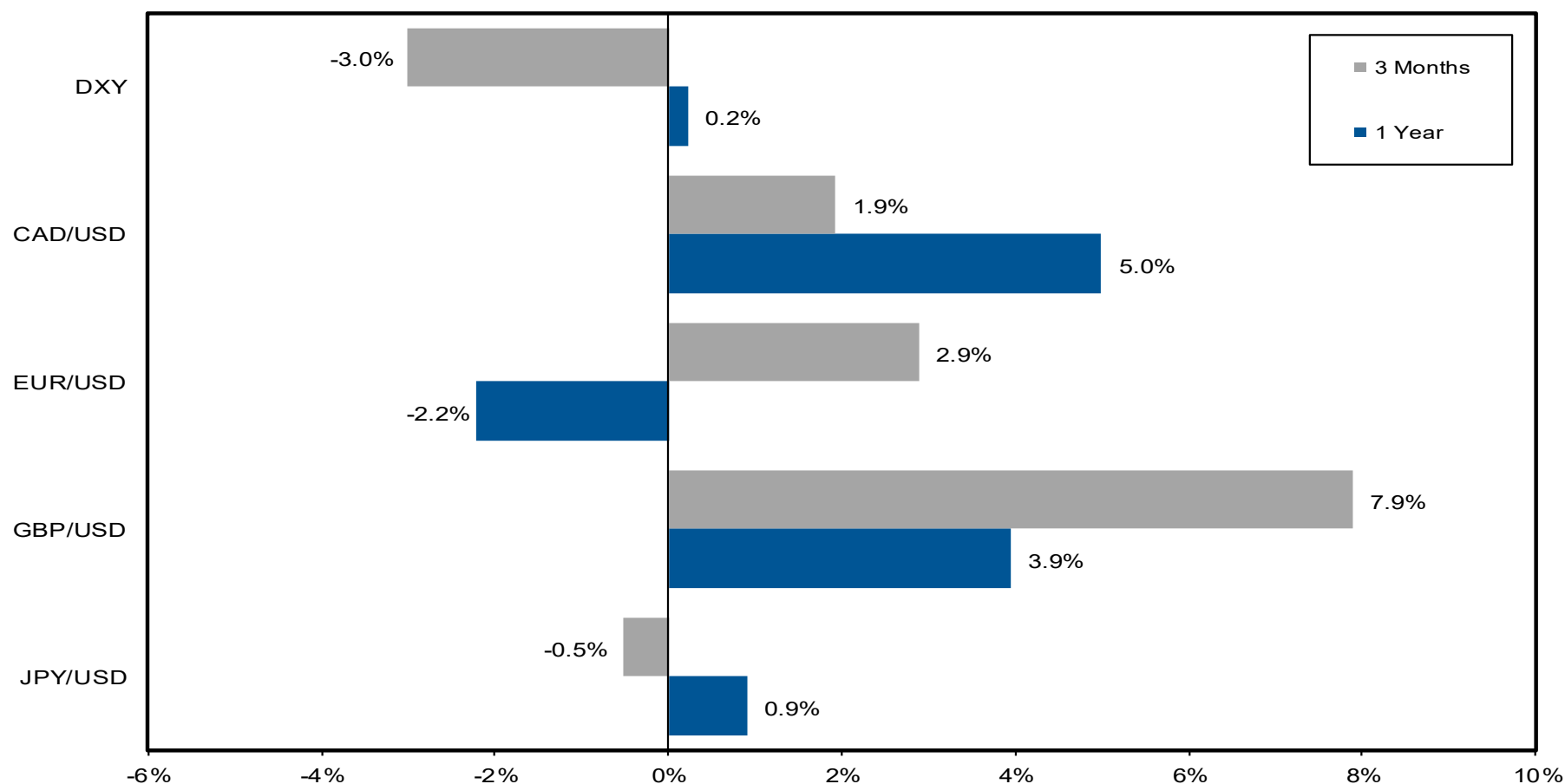


CURRENCY MARKETS

December 31, 2019



After spending most of 2019 trending higher, the US dollar lost some notable momentum in the final quarter as fading trade and political anxieties reduced appetite for the greenback. The pound was among the top-performing currencies amid optimism for an amicable outcome to Brexit negotiations in 2020, while the euro also gained alongside the latest backup in German bund yields. Finally, the Canadian dollar thrived following the approval of the revised USMCA, newly announced fiscal measures, and soaring crude prices - which sent the loonie to its strongest level since October 2018.

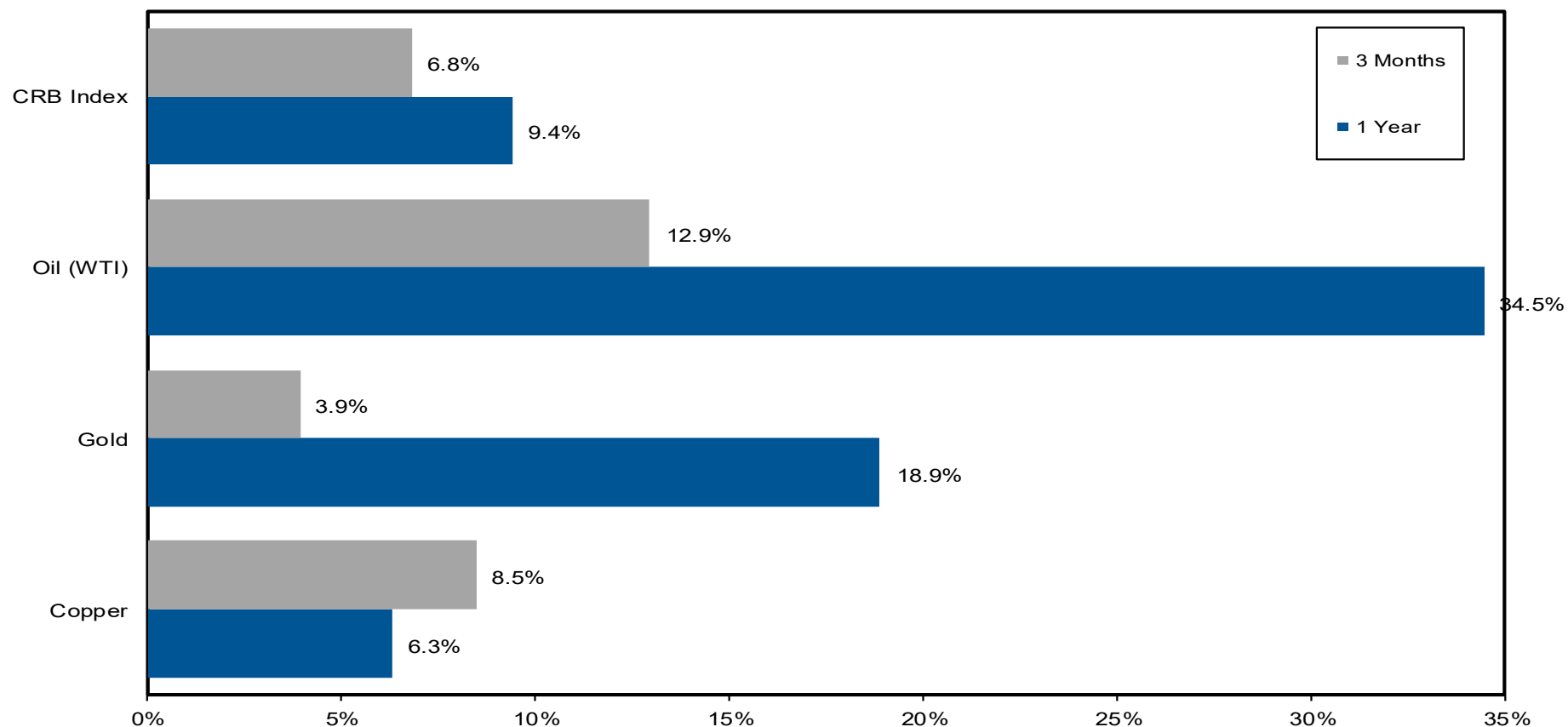


COMMODITY MARKETS

December 31, 2019



Renewed optimism on the state of US-Sino trade relations and the diminished risk of a “hard” Brexit scenario have helped to dispel global economic growth fears and eased two of the biggest risks overhanging commodity prices. Gold climbed to a 3-month high on the heels of the weaker US dollar. Crude prices thrived and jumped above \$60/barrel, owing to the increased likelihood of a US-China trade truce and an agreement between OPEC and its allies to deepen supply cuts in 2020. Finally, copper trended higher as the improved trade dynamic bolstered global growth prospects and the demand outlook for the red metal, while newly announced stimulus measures from the Chinese central bank also added to the positive trajectory in early 2020.

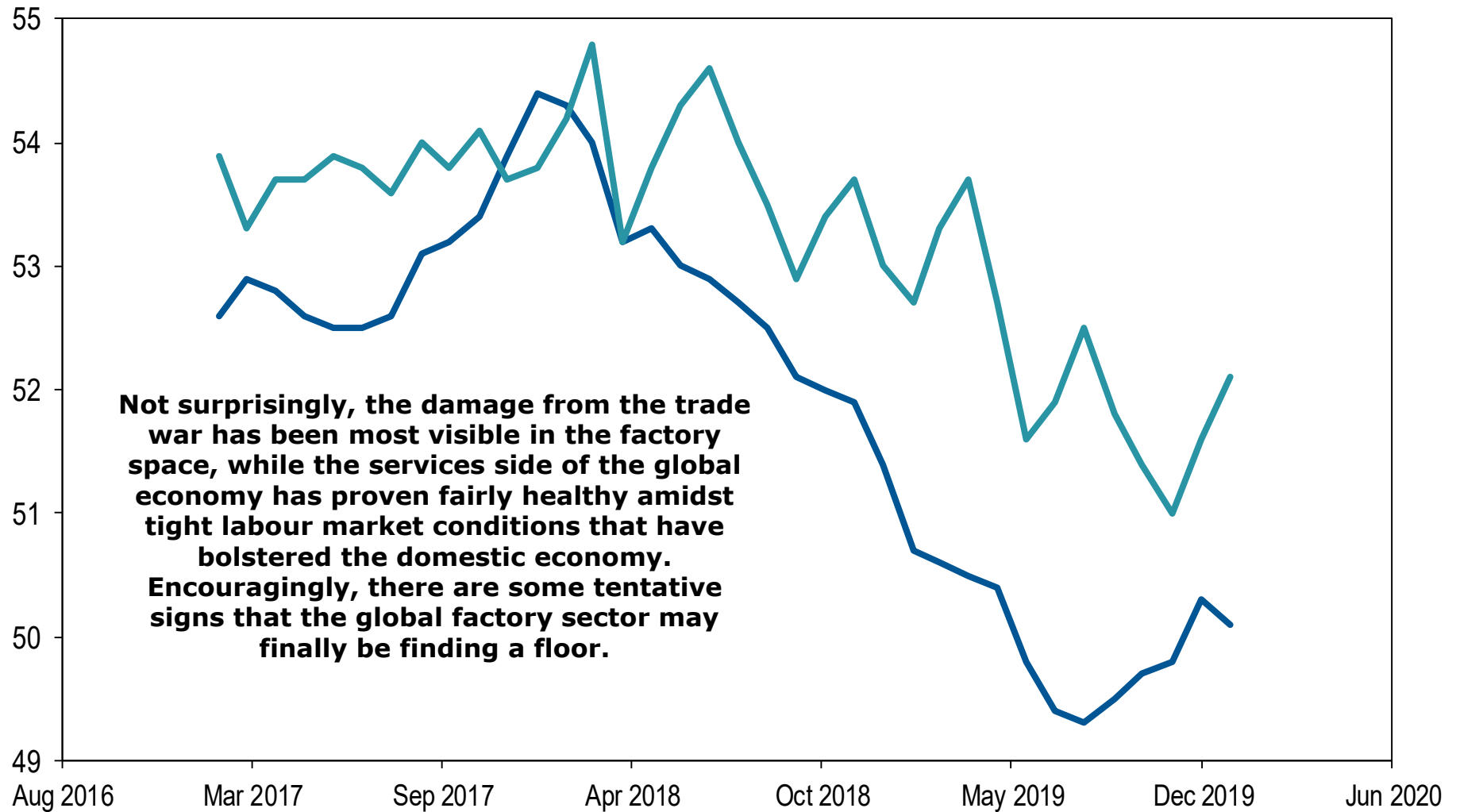


MACROECONOMIC ASSESSMENT



ECONOMIC FUNDAMENTALS

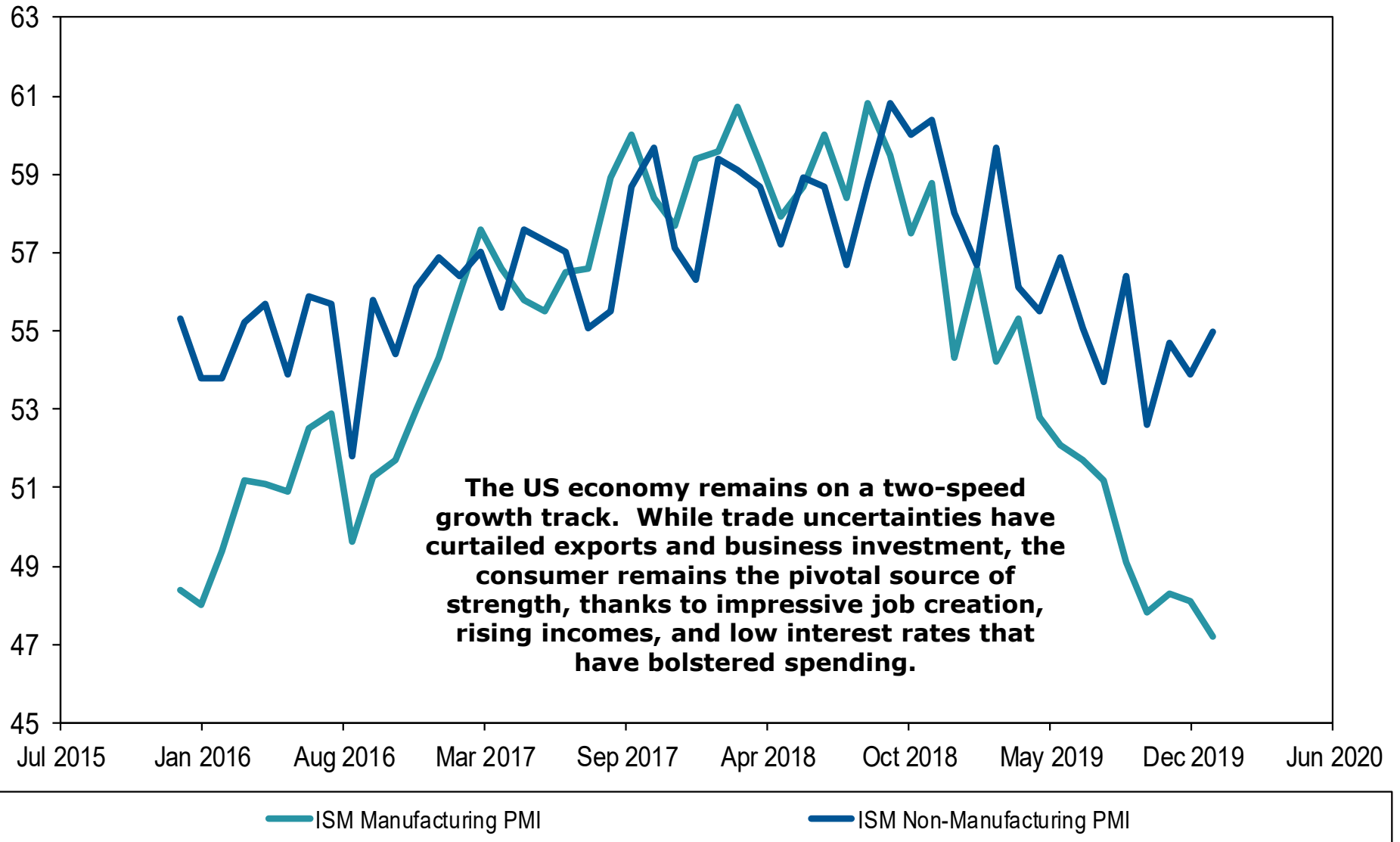
Global Growth Stabilization



— GLOBAL MANUFACTURING PMI

— GLOBAL NON-MANUFACTURING PMI

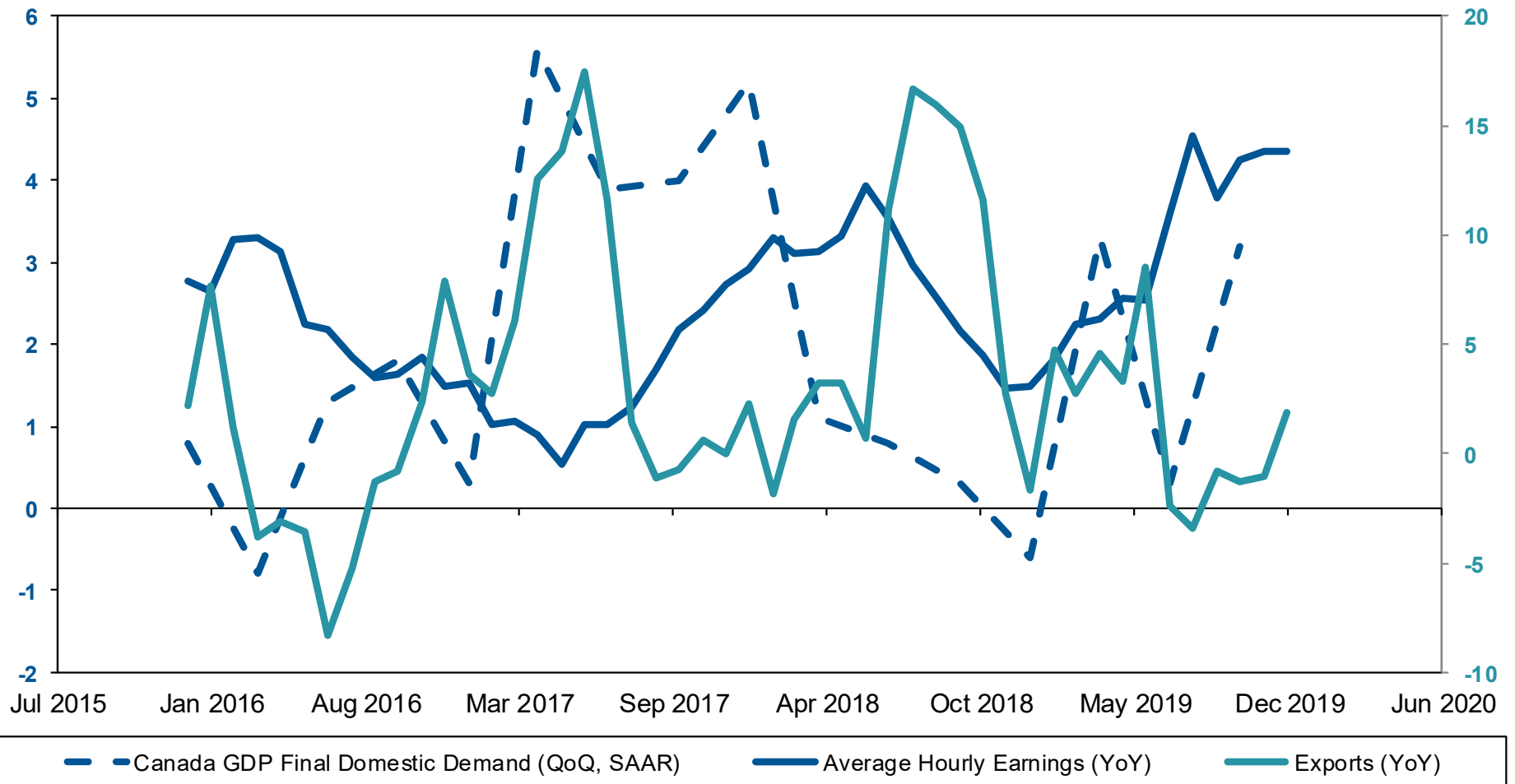
USA: Consumer Strength Counters Trade Woes



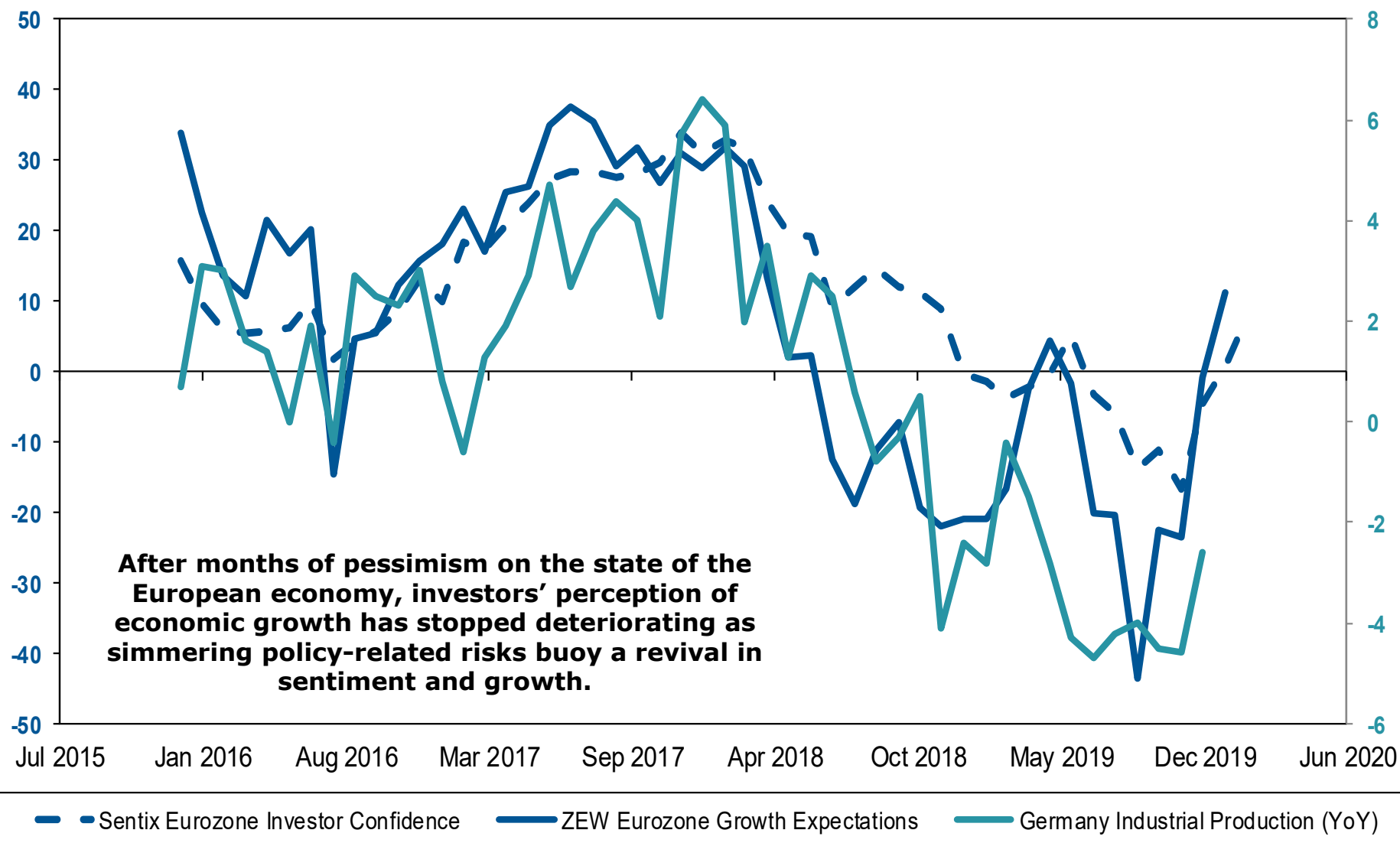
CANADA: Resilient to Global Uncertainties



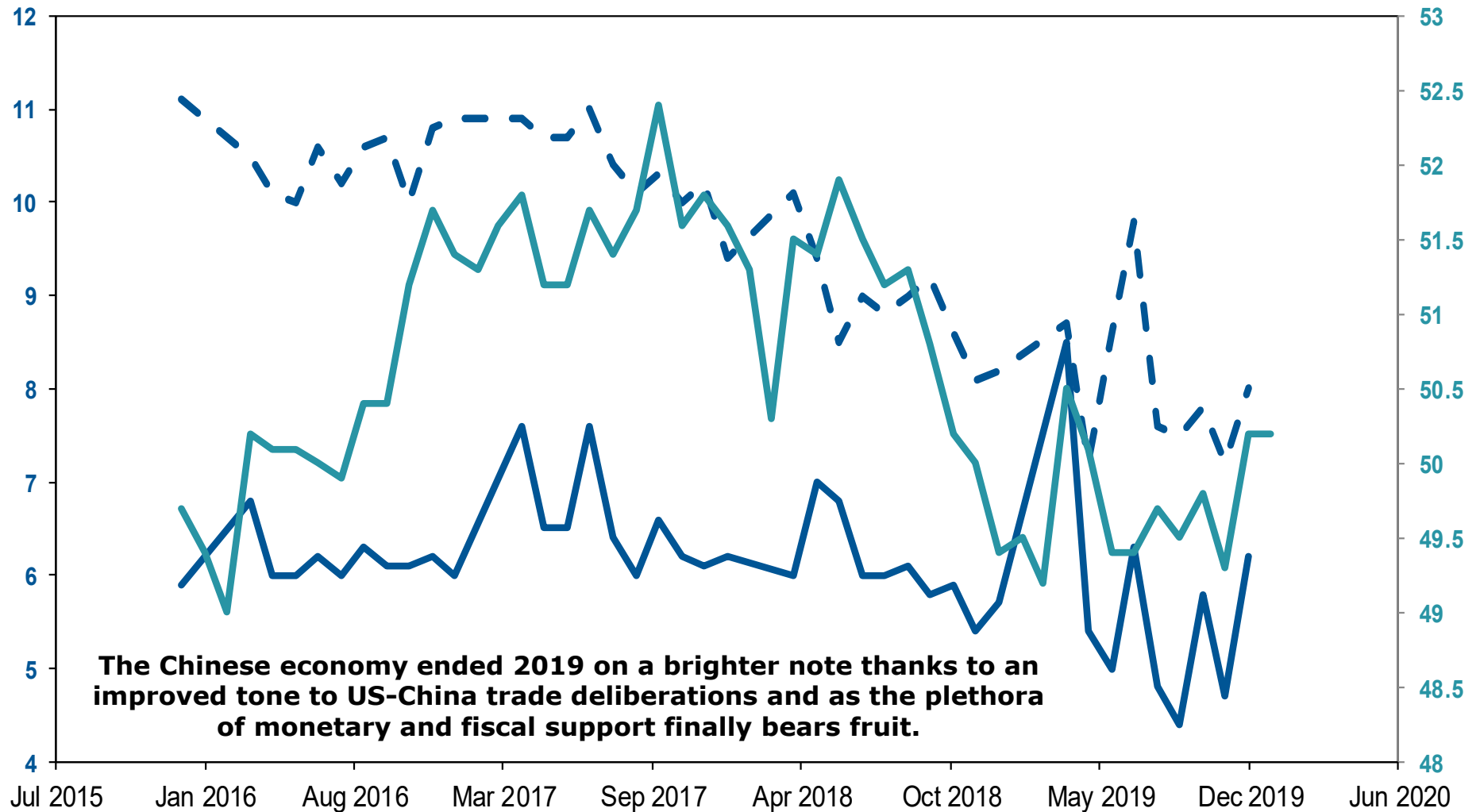
In Canada, domestic resilience has largely countered vulnerabilities on the trade front, with healthy labour market conditions and accelerating wages lifting household spending. That said, the two big breakthroughs on trade (US-China détente, USMCA ratification) should help to spark a recovery in exports and business investment and alleviate pressure on the overly-exhausted consumer - while fiscal policy is also poised to add to growth in 2020.



EUROPE: Past the Worst of the Factory Slump



CHINA: Reflationary Impulse Stabilizes Growth



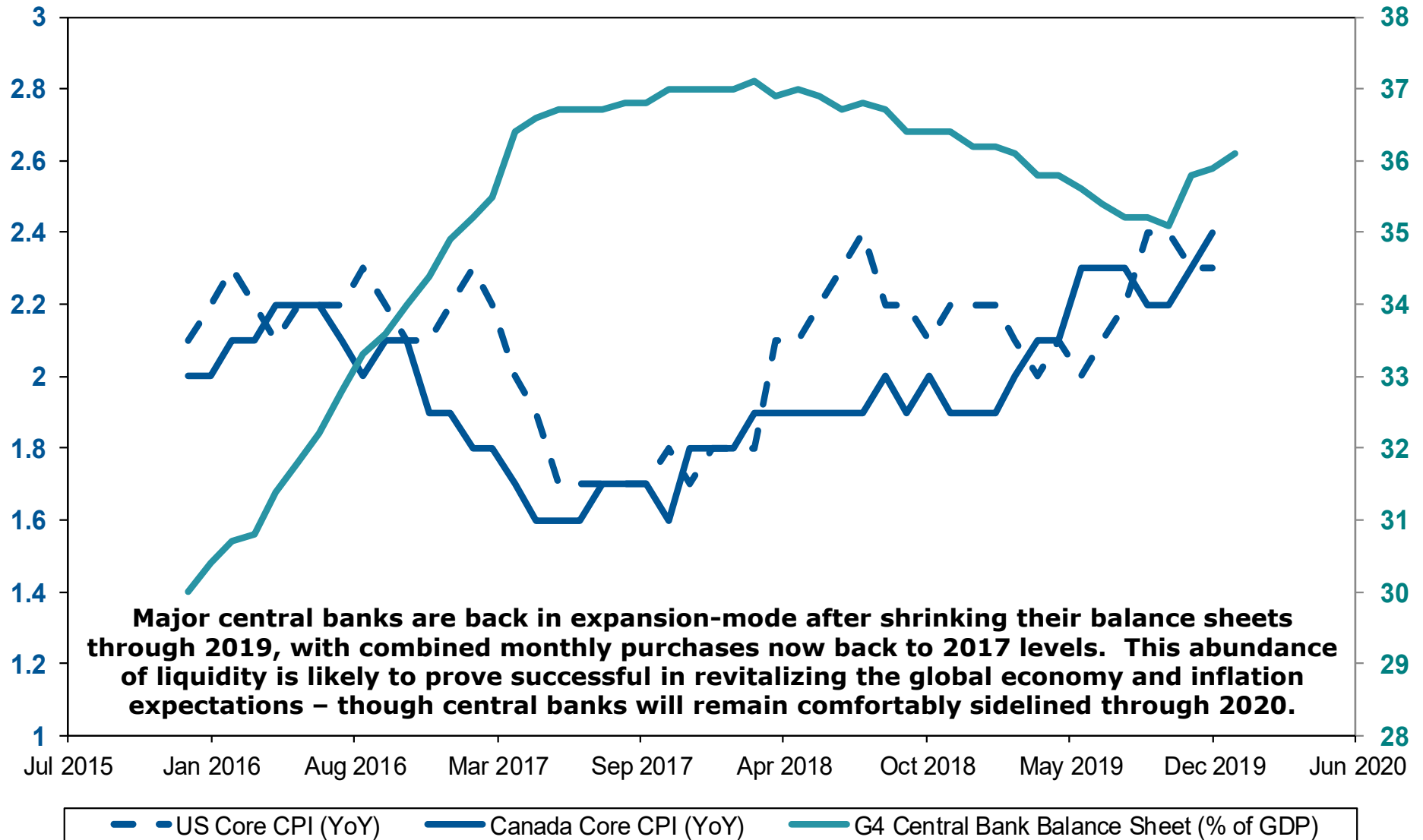
China Retail Sales (YoY)

China Industrial Production (YoY)

China Manufacturing PMI

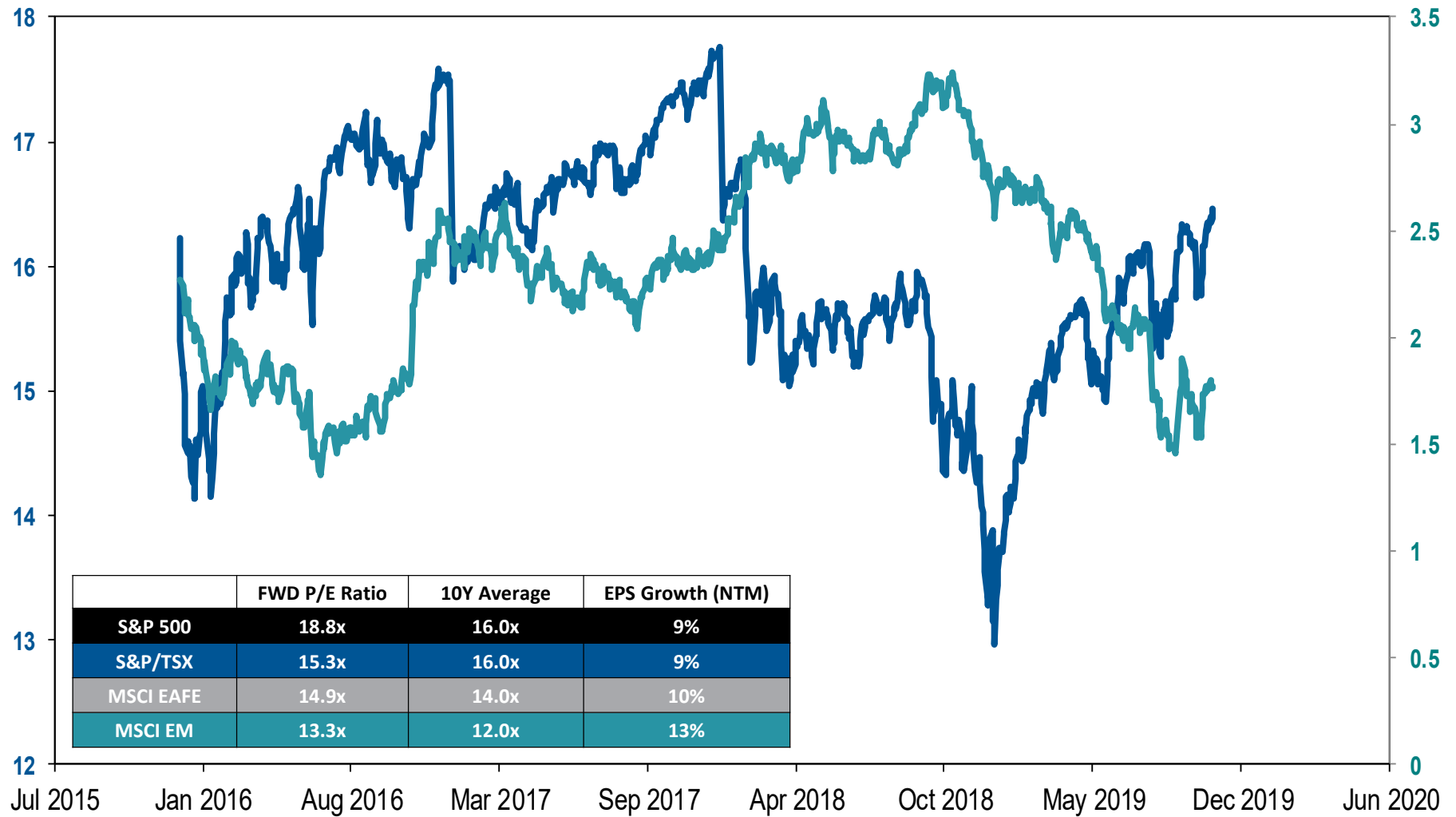
CENTRAL BANKS

Liquidity Remains Abundant



VALUATIONS

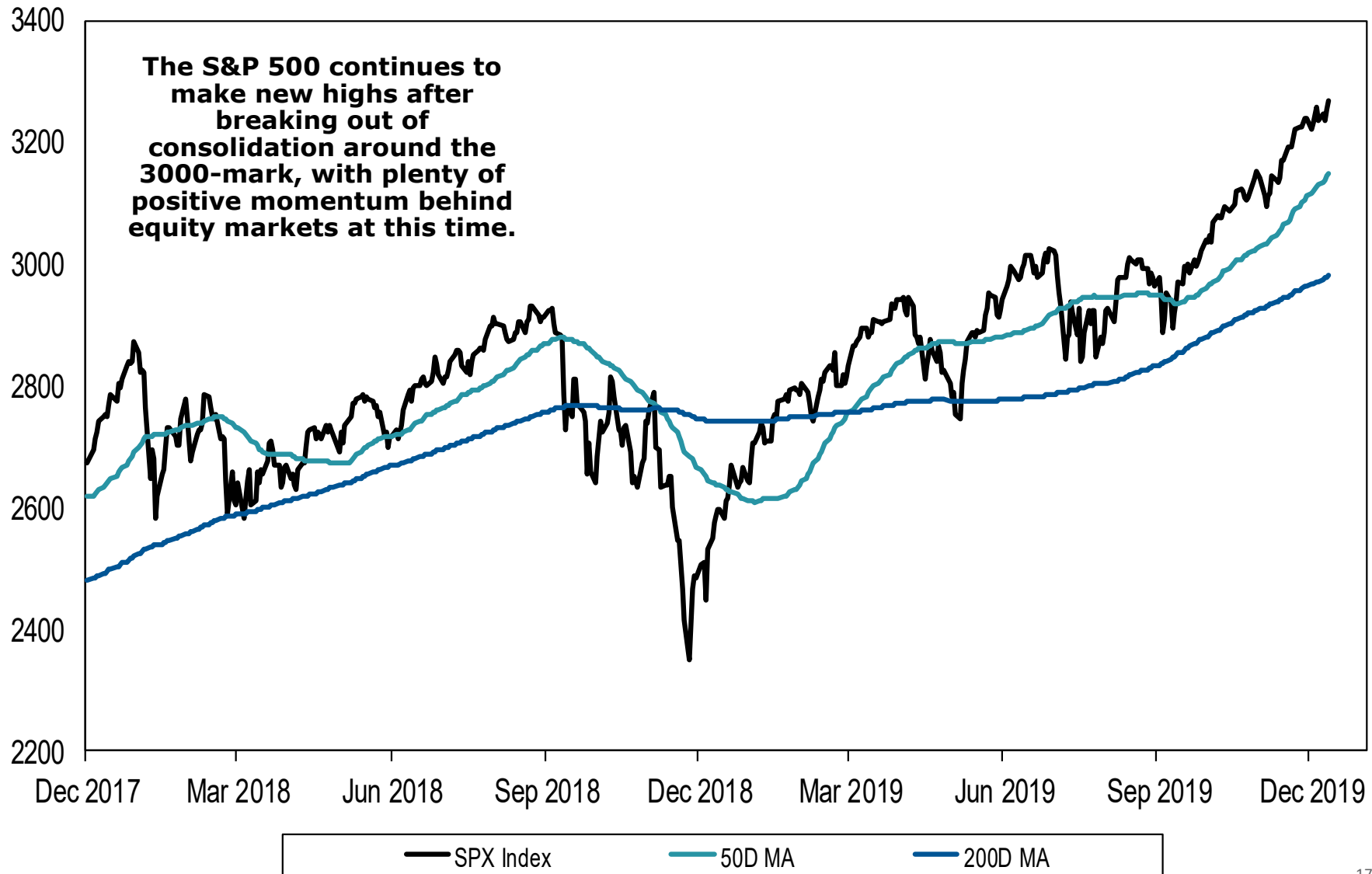
Equities Attractively Valued vs Bonds



— MSCI All Country World FWD P/E — US 10 Year Treasury Yield (%)

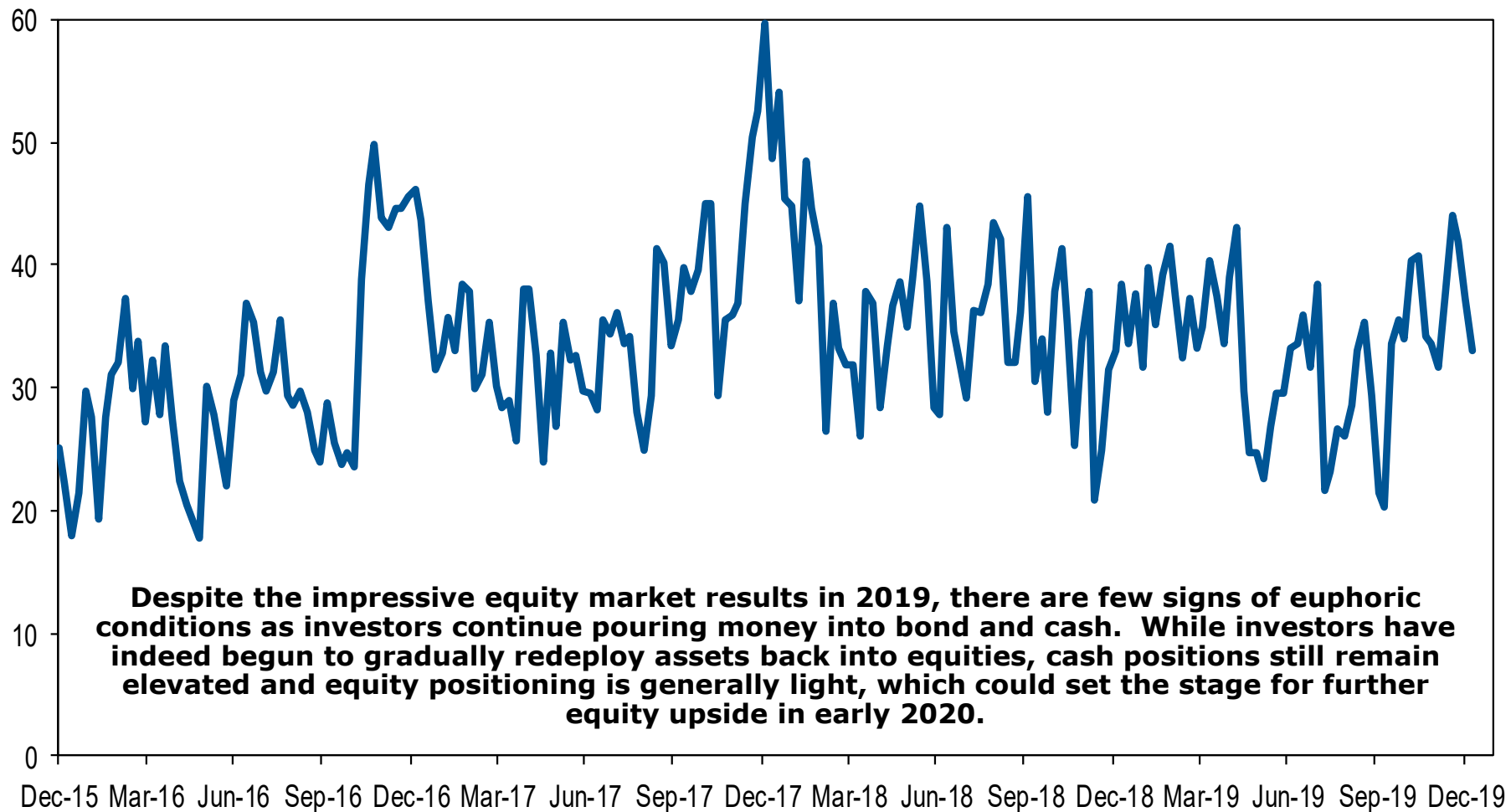
TECHNICALS

S&P 500: Bullish Breakout



CONSENSUS & SENTIMENT

Investor Exuberance Remains Elusive



— American Association of Individual Investors - BULLISH

SUMMARY: INVESTMENT CONCLUSIONS



	Q1-2020 THEMES	MACRO VIEWS	STRATEGY IMPACT STOCKS > BONDS
ECONOMIC FUNDAMENTALS	GLOBAL ECONOMIC REACCELERATION	Receding trade tensions and the lagged impact of reflationary policies should bode well for the global growth and earnings trajectory	+
CENTRAL BANKS	DOVISH PIVOT EXTENDS THE DURATION OF THE EXPANSION	Central banks have assumed a supportive stance in response to the erratic macro backdrop and liquidity remains abundant; potential for fiscal support.	+
VALUATIONS	BONDS OVERVALUED EQUITY STILL APPEALING	Bond prices too expensive given low recession risk; Accommodative central bank policies that extend the dawn of recession argues for a higher P/E	+
TECHNICALS	BULLISH BREAKOUT	Global equities breaking higher (higher highs) Bond yields due for a technical (upward) bounce	+
CONSENSUS	EUPHORIC CONDITIONS ELUSIVE	While cash positions are being redirected to equity, investors remain generally light on positioning; Long bonds are a crowded trade	=

ASSET ALLOCATION STRATEGY



ASSET ALLOCATION STRATEGY

Scenario Analysis



MAIN SCENARIO SUSTAINED GLOBAL EXPANSION

PROBABILITY 65%

The global economy finds its footing and reaccelerates in a synchronous manner, with global growth advancing in-line with its potential rate. The US leads the global charge as the consumer remains a pivotal source of strength, though growth moderates to a still above-trend pace due to limited spare capacity in these later stages of the cycle. Meanwhile, healthy demand stateside and receding North American (USMCA) trade tensions buoys the Canadian economy and helps to facilitate the much-needed rotation towards exports and business investment (from the consumer and housing sector). Looking abroad, transitory factors that were exacerbated by a tumultuous global trade backdrop dissipate and both the European and Japanese economies recalibrate somewhat, while the Chinese economy stabilizes in response to the plethora of monetary and fiscal stimulus measures that place a floor under the world's second largest economy and by extension, global growth prospects. The environment of moderate, albeit self-sustaining growth keeps inflation stable at levels that do not pose a threat to the economic trajectory and allows major central banks to maintain stimulative policies. Notably, central bankers assume an increased tolerance for an overshoot on their inflation targets and a willingness to let the economy run hot (emphasis on "symmetry"), creating a lucrative, not-too-hot, not-too-cold backdrop for both the economy and investors alike. The accommodative impulse from major central banks ultimately nurtures the economic recovery and extends the visibility of the cycle. This reflationary backdrop bodes well for equities and commodities at the expense of fixed income and the US dollar.

SCENARIO 2: POLITICAL INSTABILITY PROBABILITY 25%

The trend towards populism and protectionist policy could ignite a crisis in confidence and destabilize the financial markets, while heightened geopolitical strains also have the potential to create periodic bouts of volatility. The biggest risk to our base case scenario is a rise in protectionism stemming from the US and the threat of a full-blown trade war that would derail the synchronous global expansion. While the US has proven successful in securing a trade deal with Canada and Mexico and extracting a "phase one" trade agreement with China, vulnerabilities remain due to the sizeable trade deficit in the US. Notably, trade tribulations between the world's two largest economies are likely to prevail as negotiations linger on unresolved with no concrete, long-term deal to tackle the larger, structural issues and imbalances between the US and China. Meanwhile, Trump's focus may also shift towards other global trading partners, with the US threatening to use Section 232 (national security grounds) to impose tariffs on auto imports. Taken together, an escalation in the trade debacle would be detrimental for trade flows and hence, the global economy. The political landscape in Europe and the UK also remains highly uncertain, with the fortunes for these economies hinging on whether UK and EU negotiators can agree on a trade deal in 2020, as failure to do so before the year-end deadline would result in a "hard" (no-deal) Brexit. Finally, uncertainty over the US election could also act as a strain in 2020, with anti-business rhetoric from the Democrats potentially creating pockets of volatility in the coming year.

SCENARIO 3: STAGFLATION PROBABILITY 10%

After an extended period of undershooting central bank inflation targets, policymakers tolerate higher inflation (overshoot) and monetize inflation. As a result, inflation expectations start to de-anchor from current subdued levels and surge higher. This would come at the same time that fiscal stimulus is being reigned-in (2020) in the later stages of the economic expansion, causing growth to moderate to well below potential levels in response. In the Stagflation scenario, a stagnation in growth occurs concurrently with an acceleration in inflation as a result of previous excessive monetary stimulation and an exhaustion of productive capacity - creating a tumultuous financial market landscape whereby both equities and bonds experience broad based declines.

ASSET ALLOCATION STRATEGY

Forecasts For the Next 12 Months



SCENARIOS	DEC-31-19	SUSTAINED GLOBAL EXPANSION	POLITICAL INSTABILITY	STAGFLATION
PROBABILITY		65%	25%	10%
GDP GROWTH (Y/Y)				
Global	3.20%	3.25%	2.00%	2.75%
Canada	1.20%	1.75%	0.50%	1.75%
U.S.	2.10%	2.00%	1.00%	2.00%
INFLATION (HEADLINE Y/Y)				
Canada	2.20%	2.50%	1.25%	3.00%
U.S.	2.10%	2.50%	1.50%	3.00%
SHORT-TERM RATES				
Bank of Canada	1.75%	1.75%	1.00%	2.00%
Federal Reserve	1.75%	1.75%	1.00%	2.00%
10-YEAR RATES				
Canada Government	1.70%	2.25%	1.30%	3.00%
US Government	1.92%	2.75%	1.50%	3.25%
PROFIT GROWTH (NEXT 12 MONTHS)				
S&P/TSX	8.5%	8.1%	-13.5%	5.7%
S&P 500	9.6%	8.1%	-7.4%	-1.2%
MSCI EAFE	24.4%	8.2%	-5.9%	-0.1%
MSCI EM	19.8%	18.4%	-9.5%	4.5%
P/E (FORWARD 12 MONTHS)				
S&P/TSX	15.1x	16.5x	14.0x	14.0x
S&P 500	18.2x	19.0x	16.0x	16.0x
MSCI EAFE	13.6x	15.5x	12.0x	13.5x
MSCI EM	13.0x	14.5x	11.0x	11.5x
CURRENCIES				
CAD/USD	0.77	0.80	0.65	0.83
EUR/USD	1.12	1.16	1.05	1.10
USD/JPY	108.61	105.00	95.00	120.00
COMMODITIES				
Oil (WTI. USD/barrel)	61.06	70.00	40.00	80.00

ASSET ALLOCATION STRATEGY

Matrix of Expected Returns (CAD)



	SUSTAINED GLOBAL EXPANSION	POLITICAL INSTABILITY	STAGFLATION
	65%	25%	10%
Money Market	1.8%	1.4%	1.9%
Canadian Bonds	-0.6%	5.4%	-5.9%
Canadian Equity	8.8%	-26.2%	-9.7%
U.S. Equity	-1.0%	-12.0%	-26.5%
International Equity	-4.8%	-21.2%	-26.2%
Emerging Market Equity	6.4%	-24.0%	-28.2%
Real Assets	7.0%	5.0%	3.0%

ASSET ALLOCATION STRATEGY

Fiera Capital Institutional Markets



	MINIMUM	BENCHMARK	MAXIMUM	STRATEGY	ALLOCATION	RELATIVE
Money Market	0.0%	5.0%	25.0%	Underweight	0.0%	-5.0%
Canadian Bonds	5.0%	25.0%	45.0%	Underweight	5.0%	-20.0%
Canadian Equity	10.0%	20.0%	30.0%	Overweight	25.0%	+5.0%
U.S. Equity	0.0%	10.0%	20.0%	Neutral	10.0%	0.0%
International Equity	0.0%	10.0%	20.0%	Underweight	5.0%	-5.0%
Emerging Markets Equity	5.0%	5.0%	15.0%	Overweight	15.0%	+10.0%
Real Assets	5.0%	25.0%	45.0%	Overweight	40.0%	+15.0%

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