

TACTICAL ASSET ALLOCATION COMMITTEE MONTHLY COMMENTARY

MAY 2019



FIERA CAPITAL

Risk appetite lingered-on in April as investors embraced the improved tone in global economic conditions, an impressive string of corporate earnings results, and the dovish pivot from major central banks. Notably, the latest economic results out of both Europe and China suggest that the worst of the global economic slowdown may finally be behind us, while cautious undertones from the likes of the Bank of Canada, European Central Bank, and Bank of Japan that have echoed the Federal Reserve's patient and data dependent stance also bolstered investor sentiment last month.

FINANCIAL MARKET DASHBOARD

	APRIL 30 2019	APR.	YTD	1 YEAR
EQUITY MARKETS		% PRICE CHANGE (LC)		
S&P 500	2946	3.93%	17.51%	11.25%
S&P/TSX	16581	2.97%	15.76%	6.23%
MSCI EAFE	1921	2.46%	11.72%	-5.98%
MSCI EM	1079	2.00%	11.75%	-7.32%
FIXED INCOME (%)		BASIS POINT CHANGE		
US 10 Year Bond Yield	2.50	9.7	-18.2	-45.1
US 2 Year Bond Yield	2.27	0.6	-22.2	-22.2
CA 10 Year Bond Yield	1.71	9.5	-25.5	-59.5
CA 2 Year Bond Yield	1.56	1.4	-30.0	-33.0
CURRENCIES		% PRICE CHANGE		
CAD/USD	0.75	-0.31%	1.85%	-4.08%
EUR/USD	1.12	-0.03%	-2.20%	-7.15%
USD/JPY	111.42	0.51%	1.58%	1.90%
COMMODITIES		% PRICE CHANGE		
WTI Oil (USD/bbl)	63.91	6.27%	40.74%	-6.80%
Copper (USD/pound)	2.90	-1.18%	10.28%	-4.95%
Gold (USD/oz)	1285.70	-0.56%	0.34%	-2.54%

Global equity market strength extended itself for a fourth consecutive month in April. Regionally speaking, gains were broad based across the globe, with developed market equities outperforming their emerging market counterparts. Once again, the S&P 500 led the global charge and breached new record levels, while the S&P/TSX also briefly touched new highs during the month. In Europe, the number of companies exceeding earnings estimates was the highest in seven quarters and boosted stock prices, while emerging market bourses maintained their winning streak as the revitalized global growth backdrop and optimism on the potential for a US-China trade deal lent support to the gauge of developing market equities.

In fixed income markets, government bond yields shifted higher across the curve and yield curves bear-steepened. The largest move took place in the long-end, with both the US and Canadian 10 year bond yields backing up to 2.50% and 1.71% respectively after a sharp drop the month prior. Meanwhile, the move in the short-end was more modest, with 2 year bond yields remaining relatively anchored as the subdued inflation backdrop and the dovish pivot from central banks saw investors firm-up their wagers for rate cuts this year. Finally, credit spreads tightened further and corporate bonds outperformed their government peers during the month.

The greenback strengthened versus virtually all of its G10 peers and climbed to a 2019 high as several major central banks outside of the US followed the Federal Reserve's lead and reinforced their accommodative approach, which fuelled currency weakness outside of the United States. However, the mighty dollar reversed course late in the month and declined as solid economic results in Europe and China helped to assuage global growth fears and quelled demand for the greenback.

Finally, oil prices jumped to a six-month high after America's vow for tougher restrictions on Iranian exports threatened to squeeze the supply backdrop, while OPEC and its allies reiterated their pledge to reduce crude inventories and keep a lid on output even after calls from President Trump to lower prices. Meanwhile, gold posted its third straight monthly decline in April as the environment of improved risk appetite diminished the appeal of bullion as a haven, while copper slid lower as investors contemplated the health and fragility of the Chinese economy, the world's largest consumer of the red metal.

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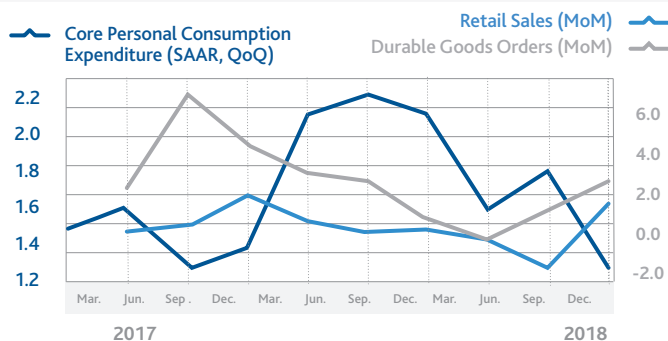


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According to the Bank of Canada Business Outlook Survey, corporate sentiment contracted during the first quarter as headwinds pertaining to the energy sector and the global trade backdrop weighed. However, forward-looking indicators on the outlook for sales, investment, and hiring plans suggest that Canadian businesses remain reasonably upbeat about the future.

Source: Bloomberg most recent data as of April 30, 2019



After a sluggish start to the year, US growth prospects improved in March and are providing a strong handoff to the second quarter. Retail sales climbed by 1.6% (the most since September 2017), while durable goods orders soared by 2.7%. While the Federal Reserve has acknowledged the upbeat tone to the economic backdrop, subdued pricing pressures have reinforced the patient and data dependent approach, with the Fed's core gauge of inflation falling further below the 2% objective.

Source: Bloomberg most recent data as of April 30, 2019



The latest activity data out of China has reaffirmed that the world's second largest economy may finally be finding a floor after a difficult end to 2018, which should have positive ramifications for the global economy in general. Retail sales growth accelerated to 8.7% y/y, industrial output growth rebounded to 8.5% y/y, and fixed asset investment growth came in at 6.3% y/y. Meanwhile, exports jumped 14.2% y/y as renewed optimism on the state of US-China trade discussions and a stabilizing global growth landscape boosted export activity.

Source: Bloomberg most recent data as of April 30, 2019

Past performance is no guarantee of future results. All investments involve risk including loss of principal. Please see General Disclosures regarding Index definitions at the end of this Analysis.

CANADA

The Canadian economy gave back some of its outsized gains from January and shrunk in February, essentially reinforcing the narrative of a sluggish start to 2019. While poor weather conditions took a bite out of economic activity, falling resource production also added to the economy's woes as government-mandated production curbs in Alberta restrained activity in the oil patch. The good news is that the first quarter slump has largely been driven by temporary factors that are expected to fade. Looking ahead, the Canadian economy is expected to bounce back alongside a recovery in the energy sector and as trade tensions subside – which should help to facilitate the much-needed rotation towards business investment and exports from the overly-exhausted consumer that has become vulnerable in the environment of higher borrowing costs.

USA

The US economy defied expectations and grew at a stronger-than-expected pace during the first quarter of 2019. However, the underlying details revealed that domestic demand softened somewhat, with both consumer and business spending cooling at the beginning of the year. As we head into the second quarter, the latest string of activity data suggests that both the consumer and businesses will bounce back – echoing the constructive undertones from Federal Reserve Chair Powell in early May. Importantly, the consumer remains a pivotal source of strength, thanks to robust labour market conditions, solid wage gains, and low interest rates. Furthermore, trends in the factory sector were also favourable in March and suggest that US manufacturers are seeing some healthy demand, which should act as a boon for business spending prospects in the coming year.

INTERNATIONAL

We are seeing some tentative signs that the reflationary impulse from Chinese policymakers is finally proving successful in stabilizing the world's second largest economy and by extension, the global growth trajectory. The Chinese economy grew at a healthy pace during the first quarter, while impressive rebounds in factory output, retail sales, and investment also added to the constructive narrative. Meanwhile, recent data suggests that the worst may be behind the Eurozone as idiosyncratic factors that were exacerbated by global trade tensions recede. The European economy recalibrated at the beginning of 2019, owing to resilience in Spain and France and as Italy bounced back into expansion territory, while the German economy is expected to make a comeback as external trade conflicts and temporary woes in the auto sector fade.

TACTICAL ASSET ALLOCATION COMMITTEE

MONTHLY COMMENTARY



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Our current scenarios are for a synchronized probability (40%), which is a continuation of the current environment that benefits equities, moderate growth (25%), which would be negative for equities and positive for bonds, political instability (20%) which would be detrimental for both bonds and equities, and finally, stagflation (15%) that would introduce significant financial market volatility.

MAIN SCENARIO

SYNCHRONIZED GLOBAL
EXPANSION

PROBABILITY 40%



The global economy finds a bottom and reaccelerates in a synchronous manner, with all major regions contributing to the advance. The US leads the global charge, though moderates to a still above-trend pace as the fiscal and monetary impetus fades in 2019, which has positive spillover effects for the Canadian economy. Looking abroad, transitory factors that were met with global trade tensions recede and the European and Japanese economies recalibrate, 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. Taken together, the combination above-trend global growth and a revival in commodity prices should bolster inflation expectations and send major central banks back to the table in late 2019. This optimistic, growth-levered scenario bodes well for equities and commodities (ex-gold) at the expense of fixed income and the US dollar.

SCENARIO 2

MODERATE GROWTH

PROBABILITY 25%



In this alternate scenario, the global economy fails to reaccelerate in a meaningful way, but nonetheless continues to grow in-line with (or modestly below) its potential rate. The environment of moderate and self-sustaining growth keeps inflation stable at levels that do not pose a threat to the economic trajectory, allowing major central banks to maintain stimulative policies and remain sidelined throughout 2019 – 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 also bodes well for equities and commodities (ex-gold) at the expense of fixed income and the US dollar – though to a lesser magnitude than our base case scenario.

SCENARIO 3

POLITICAL INSTABILITY

PROBABILITY 20%



The trend towards populism and protectionism could ignite a crisis in confidence and destabilize the financial markets. The biggest risk to our base case scenario is a rise in protectionism stemming from the US and the threat of a 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 some concessions from China, tensions remain due to the sizeable trade deficit in the US. As such, Trump's focus may shift towards other trading partners in Europe and Japan, with the US threatening to use Section 232 (national security grounds) to impose tariffs on auto imports, while tensions between the US and China are surely to prevail. Taken together, any escalation in the trade debacle would be detrimental for trade flows and hence, the global economy. Meanwhile, the stakes are high for this year's European Parliamentary elections where the populists are likely to continue gaining ground, while lingering tensions and a lack of progress in Brexit negotiations raises the odds of a "hard Brexit" scenario.

SCENARIO 4

STAGFLATION

PROBABILITY 15%



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.

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FORECASTS FOR THE NEXT 12 MONTHS

SCENARIOS	APRIL 30, 2019	SYNCHRONIZED GLOBAL EXPANSION	MODERATE GROWTH	POLITICAL INSTABILITY	STAGFLATION
PROBABILITY		40%	25%	20%	15%
GDP GROWTH (Y/Y)					
Global	3.70%	3.80%	3.50%	2.00%	2.75%
U.S.	3.20%	3.00%	2.50%	1.00%	2.75%
INFLATION (HEADLINE Y/Y)					
U.S.	1.90%	2.50%	1.75%	2.00%	3.00%
U.S. RATES					
Fed Funds	2.50%	3.00%	2.50%	2.00%	2.75%
10-Year Treasuries	2.50%	3.20%	3.00%	2.25%	4.00%
30-Year Treasuries	2.93%	3.80%	3.20%	2.50%	4.25%
PROFIT ESTIMATES (12 MONTHS FORWARD)					
S&P 500	163	178	170	150	160
MSCI EAFE	139	145	127	120	120
MSCI EM	86	95	83	65	77
P/E (FORWARD 12 MONTHS)					
S&P 500	17.0X	17.0X	17.5X	15.0X	16.0X
MSCI EAFE	13.8X	14.0X	15.5X	12.0X	13.5X
MSCI EM	12.5X	13.0X	13.5X	11.0X	11.5X
CURRENCIES					
EUR/USD	1.12	1.20	1.16	1.10	1.10
USD/JPY	111.42	100.00	110.00	115.00	120.00
GBP/USD	1.30	1.35	1.30	1.20	1.15
CAD/USD	0.75	0.79	0.77	0.70	0.80
COMMODITIES					
Oil (WTI, USD/barrel)	63.91	70.00	65.00	40.00	80.00

Discussions regarding potential future events and their impact on the markets are based solely on historic information and Fiera Capital's estimates and/or opinions, and are provided for illustrative purposes only. Expected returns are hypothetical estimates of long-term returns of economic asset classes based on statistical models and do not represent the returns of an actual investment. Actual returns will vary. Models have limitations and may not be relied upon to make predictions of future performance of any account.

TACTICAL ASSET ALLOCATION COMMITTEE MONTHLY COMMENTARY



MATRIX OF EXPECTED ANNUAL RETURNS (USD)

SCENARIOS	SYNCHRONIZED GLOBAL EXPANSION	MODERATE GROWTH	POLITICAL INSTABILITY	STAGFLATION
PROBABILITY	40%	25%	20%	15%
US Money Market	2.8%	2.5%	2.3%	2.6%
US Bonds	-3.8%	-2.7%	2.6%	-9.0%
US Equity	2.7%	1.0%	-23.6%	-13.1%
International Equity	5.6%	2.4%	-25.1%	-15.7%
Emerging Market Equity	14.4%	3.8%	-33.7%	-18.0%

CURRENT STRATEGY¹

	MINIMUM	BENCHMARK	MAXIMUM	STRATEGY	ALLOCATION	RELATIVE
MONEY MARKET	0.0%	5.0%	25.0%	Overweight	10.0%	+5.0%
TRADITIONAL INCOME	5.0%	30.0%	85.0%	Underweight	20.0%	-10.0%
US Government Bonds	0.0%	15.0%	50.0%	Underweight	5.0%	-10.0%
US Corporate Bonds	0.0%	5.0%	50.0%	Neutral	5.0%	0.0%
Tax Exempt US Bonds	0.0%	5.0%	25.0%	Neutral	5.0%	0.0%
Non US Bonds	0.0%	5.0%	25.0%	Underweight	0.0%	-5.0%
Preferred Stock	0.0%	0.0%	25.0%	Overweight	5.0%	+5.0%
TRADITIONAL CAPITAL APPRECIATION	15.0%	65.0%	95.0%	Overweight	70.0%	+5.0%
US Equity	10.0%	35.0%	60.0%	Underweight	32.5%	-2.5%
International Equity	5.0%	25.0%	40.0%	Underweight	22.5%	-2.5%
Emerging Market Equity	0.0%	5.0%	25.0%	Overweight	15.0%	+10.0%

¹ Based on a 100 basis point value added objective. The benchmark employed here is based on a model portfolio and for illustrative purposes only. Individual client benchmarks are employed in the management of their respective portfolios. Discussions regarding potential future events and their impact on the markets are based solely on historic information and Fiera Capital's estimates and/or opinions, and are provided for illustrative purposes only. Expected returns are hypothetical estimates of long-term returns of economic asset classes based on statistical models and do not represent the returns of an actual investment. Actual returns will vary. Models have limitations and may not be relied upon to make predictions of future performance of any account.

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The S&P 500 Index (SPX) is a stock market index made up of approximately 500 US large cap stocks. The index comprises a collection of stocks of 500 leading companies and captures 80% coverage of available market capitalization.

The S&P/TSX composite index is the Canadian equivalent to the S&P 500 market index in the United States. The S&P/TSX Composite Index contains stocks of the largest companies on the Toronto Stock Exchange (TSX). The index is calculated by Standard and Poor's, and contains both common stock and income trust units.

The Morgan Stanley Capital International ("MSCI") EM Index is a stock market index that consists of the following 23 emerging market country indexes: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Greece, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Peru, Philippines, Poland, Qatar, Russia, South Africa, Taiwan, Thailand, Turkey and United Arab Emirates.

The Morgan Stanley Capital International ("MSCI") EAFE Index is a stock market index made up of approximately 909 constituents. It is often used as a common benchmark for international stock funds. The index comprises the MSCI country indexes capturing large and mid-cap equities across developed markets in Europe, Australasia and the Far East, excluding the U.S. and Canada.

Bank of Canada Business Outlook Survey Indicator summarizes interviews conducted by the Bank's regional offices with the senior management of about 100 firms selected in accordance with the composition of the gross domestic product of Canada's business sector. This survey was conducted from February 19 to March 13, 2019. Future Sales Outlook Percentage of firms expecting faster growth minus the percentage expecting slower growth in the Business Outlook Survey Investment Intentions Percentage of firms expecting higher investment minus the percentage expecting lower investment in the Business Outlook Survey

Hiring Intentions Percentage of firms expecting higher levels of employment minus the percentage expecting lower levels in the Business Outlook Survey

Core Personal Consumption Expenditure (SAAR, QoQ) tracks overall price changes for goods and services purchased by consumers. Deflators are calculated by dividing the appropriate nominal series by the corresponding real series and multiplying by 100.

Durable Goods Orders provides data on new orders received from more than 4,000 manufacturers of durable goods, which are generally defined as higher-priced capital goods orders with a useful life of three years or more, such as cars, semiconductor equipment and turbines. More than 85 industries are represented in the sample, which covers the entire United States. The report is issued monthly by the Census Bureau of the U.S. Department of Commerce.

China Exports measure the movement of merchandise trade leaving a country. This measure tracks the value of merchandise trade.

Retail Sales tracks the resale of new and used goods to the general public, for personal or household consumption. This concept is based on the value of goods sold. China Industrial Production measures the change in output in Chinese manufacturing, mining, construction, and electricity, gas and water. It includes enterprises with annual sales greater than 5 million-yuan, accounting for 70% of total value-added in the Chinese economy. Output refers to the physical quantity of goods produced, unlike sales value, which combines quantity and price. The index covers the production of goods and power for domestic sales in China and for export. It excludes production in the agriculture, transportation, communications, trade, finance, and service industries, government, and imports.