

Taxable Fixed Income Strategies

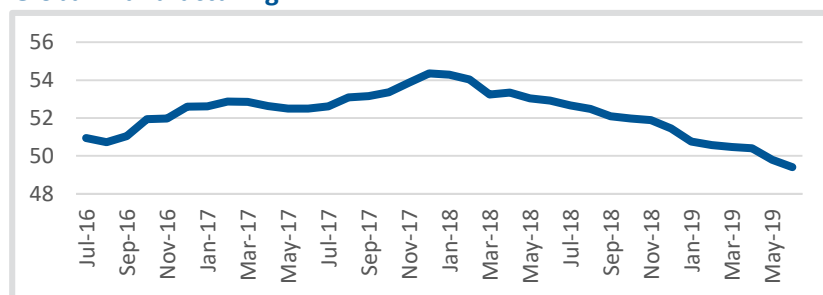
July 2019



Markets gyrated wildly during the quarter yet retained the same upward direction seen at the start of the year. Softer economic data, lower inflation and increased trade disputes created volatility in stocks and lower bond yields. Ultimately a dovish pivot by the Federal Reserve soothed the markets as policymakers seek to avoid recession amid heightened risks.

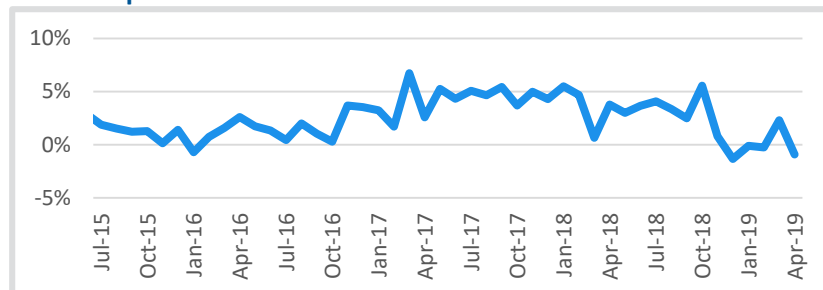
U.S. economic fundamentals are solid within a softer global landscape. The US labor market, both in jobs and wages, remains strong. The services sector is in reasonable shape. The global economy was buffeted by trade tensions and deepening slowdown in China, a major source of global demand. Global manufacturing and trade volume fell to levels not seen since late 2015. U.S. inflation also remained stubbornly below trend.

Global Manufacturing



Source: Markit Global PMI as of 6/28/19

Global Export Volumes



Source: CPB World Trade Monitor as of 4/30/19

In order to stabilize global growth, central banks are sending dovish signals. The Fed removed “patient” from their June statement in favor of adding “uncertainties about this outlook have increased”. This confirmed market expectations for rate cuts as soon as the July 31st meeting. Fed projections show rate cuts and no increases until 2021. Other major central banks are also considering stimulus.

With stocks at fresh highs and labor markets strong, why entertain rate cuts now? Chair Powell has pointed to uncertainty in the Committee’s outlook due to weaker global data and trade war escalation.

Brian Meaney, CFA

Vice President, Taxable Fixed
Income Strategist

Market and Strategy Returns*

		2Q19	YTD
HGST	Gross	1.29%	2.48%
	Net	1.25%	2.39%
BBC US Gov/Cred 1-3Y		1.48%	2.71%
Ex BBB		1.47%	2.59%
HGCI	Gross	2.21%	4.71%
	Net	2.14%	4.56%
BBC Int. Agg		2.39%	4.73%
Ex. BBB/CMBS/ABS		2.25%	4.31%
Int Gov	Gross	2.16%	4.08%
	Net	2.09%	3.93%
BBC Int Gov		2.34%	3.96%
Corp 1-5	Gross	1.88%	4.52%
	Net	1.86%	4.47%
BBC 1-5 Corp		2.09%	4.76%
BBC Int. Treasury		2.37%	3.99%
BBC TIPS 1-10Y		2.53%	5.17%
BBC U.S. MBS		1.96%	4.17%
BBC Int. Corp		3.13%	7.08%
Industrials		3.14%	7.14%
Financials		3.14%	7.11%
BBC Muni 5 Year		1.66%	3.80%
ML High Yield		2.53%	10.12%
S&P 500		4.30%	18.54%

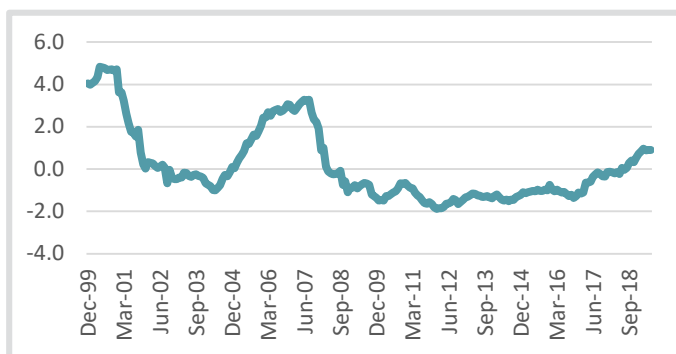
*Please see important disclosures at the end of this commentary for strategy and market definitions.

Sources: Bloomberg Barclays (BBC), Bloomberg 6/30/19.

Past performance is not a guarantee of future results. Inherent in any investment is the potential for loss.

He said recently that the Committee is concerned that policy is too tight. For example, if the rate that keeps inflation and unemployment at target is 2.375%, then the current Fed posture is “neutral”. The message the Fed has taken from deteriorating financial conditions at the end of last year, inverted yield curve, and falling inflation expectations is that the current policy rate is no longer as accommodative as they thought.

Fed Funds Rate Adjusted for Core Inflation



Source: Bloomberg as of 7/15/19

The Federal Reserve is erring on the side of preemptive rate cuts before deteriorating leading indicators turn to outright recession. Chair Powell’s approach could be best understood by this line he has used repeatedly in past press conferences: “My colleagues and I have one overarching goal: to sustain the economic expansion, with a strong jobs market and stable prices for the benefit of the American people.” By adding accommodation, the Fed is willing to allow overshoots in the unemployment rate and inflation to insulate the US economy from weakness abroad and intensifying trade tensions.

The Fed cutting rates to protect an expansion has happened before. In 1998, the Fed was concerned about market volatility during the Asian debt crises. Like today, the Treasury yield curve was flat to inverted and unemployment was low. The Fed cut rates 75 basis points over two months, then paused until resuming a tightening regime nine months after the initial cut. Financial conditions eased and the economy continued to expand until 2000.

Provided the Fed eases enough to match market expectations (reducing the target rate to 1.625% by year end), we expect a similar outcome to 1998’s

“insurance” cuts. There is the possibility that trade issues continue to sap business confidence but we expect that the US and China want to avoid the inevitable recession that an outright trade war would cause. We take comfort that softness in global manufacturing has been seen before (2012 and 2016) but dovish pivots by central banks extended the cycle.

No two rate cycles are identical but there are some lessons to glean from past experience. In prior dovish pivots, the Fed was able to prolong the expansion, assisting risk assets and increasing market implied inflation expectations. Treasury yields tend to stay low until the rate cut cycle ends. These observations inform our portfolio positioning.

High Grade Portfolio Positioning

Portfolio durations have been increased modestly based on past cycles and the suspicion that the Fed may wish to surprise the market by delivering more stimulus. When operating at low policy rates, the Fed would be well served to nip any recession risk in the bud by acting forcefully. On average the Fed cut rates by 500 basis points during prior easing cycles however today they only have 225-250 basis points to work with. This is not to say the Fed does not have room to head off a recession, rather more cuts early in the cycle might negate the need to cut more later.

We believe the sector most likely to outperform given the Fed’s desire to meet their inflation goal is Treasury Inflation Protected securities. This out of benchmark allocation is used when we believe the market is underpricing the annualized rate of inflation over the life of the security. At present, the market is only priced for 1.6% inflation versus the Fed target of 2%. We increased exposure during the quarter.

The corporate allocation and tax-exempt municipals were reduced during the quarter but maintain a modest overweight. At present valuations, Treasuries have become more attractive. Although we believe dovish central banks will prove successful in extending the recovery, we cannot discount that central banks have initially failed to meet market expectations, and may be affected by other factors such as escalation in trade tensions or other disruptions such as Brexit. As such, we believe a slightly more defensive posture is warranted.

IMPORTANT DISCLOSURES

Past performance is not a guarantee of future results. Inherent in any investment is the potential for loss.

This document is not intended as investment advice or a recommendation of any security or investment strategy for a specific recipient. Investments or strategies described herein are provided as general market commentary, and there may be no account or fund managed by Fiera Capital Inc. for which investments or strategies described herein are suitable due to the various types of accounts or funds that are managed by Fiera Capital Inc. Nothing herein constitutes an offer to sell, or a solicitation of an offer to purchase, any securities, nor does it constitute an endorsement with respect to any investment area or vehicle. This material is confidential and not to be reproduced or redistributed without the prior written consent of Fiera Capital Inc.

Certain information contained in this document may constitute "forward-looking statements," which can be identified by the use of forward-looking terminology such as "may," "will," "should," "expect," "anticipate," "project," "estimate," "intend," "continue," or "believe" or the negatives thereof or other variations thereon or comparable terminology. Due to various risks and uncertainties, actual events or results or the actual performance of any strategy or market sector may differ materially from those reflected or contemplated in such forward-looking statements.

Statements regarding current conditions, trends or expectations in connection with the financial markets or the global economy are based on subjective viewpoints and may be incorrect.

The information provided is proprietary to Fiera Capital Inc. and it reflects Fiera Capital Inc.'s views as of the date of this document. Such views are subject to change at any point without notice. Some of the information provided herein is from third party sources and/or compiled internally based on internal and/or external sources and are believed to be reliable at the time of production but such information is not guaranteed for accuracy or completeness and was not independently verified. Fiera Capital Inc. is not responsible for any errors arising in connection with the preparation of the data provided herein. No representation, warranty, or undertaking, express or implied, is given as to the accuracy or completeness of such information by Fiera Capital Inc. or any other person; no reliance may be placed for any purpose on such information; and no liability is accepted by any person for the accuracy and completeness of any such information.

Any charts, graphs, and descriptions of investment and market history and performance contained herein are not a representation that such history or performance will continue in the future or that any investment scenario or performance will even be similar to such chart, graph or description. Any charts and graphs contained herein are provided as illustrations only and are not intended to be used to assist the recipient in determining which securities to buy or sell, or when to buy or sell securities. Any investment described herein is an example only and is not a representation that the same or even similar investment scenario will arise in the future, or that investments made will be as profitable as such examples or will not result in a loss to any such investment vehicles. All returns are purely historical and are no indication of future performance.

Allocations presented herein are as of the date noted and subject to change. Returns reflect the reinvestment of income and other investment proceeds.

Composite Definitions:

Fees: Gross performance results do not reflect the deduction of management fees or other expenses. Net performance results, when shown, are calculated using the highest total fees and expenses currently charged to any account, fund, or other investment vehicle using this strategy, including management fees and all other expenses, but excluding custody fees.

- ▶ **High Grade Short Term (HGST):** The High Grade Government/Credit Short Term Composite was created April 30, 2012. The Composite consists of all fully discretionary, fee paying separately managed accounts in the High Grade Government/Credit Short Term style. The strategy is a relative return focused mandate appropriate for investors with an 1-3 year investment horizon, seeking to maximize return with a lower degree of principal volatility than typical aggregate market strategies. The minimum account size for this composite is \$2.5 million.
- ▶ **Intermediate Government (Int Gov):** The Intermediate Government (IG) Composite was created January 1, 2014. The Composite consists of all fully discretionary, fee paying separately managed accounts in the Intermediate Government style. The strategy is a relative return focused mandate appropriate for investors with an indefinite investment horizon desiring exposure to government supported credits. Benchmark: Barclays Intermediate Government Index. The minimum account size for this composite is \$500,000.00.
- ▶ **High Grade Core Intermediate (HGCI):** The High Grade Core Intermediate Composite was created September 30, 2005. The Composite consists of all fully discretionary, fee paying separately managed accounts in the High Grade Core Intermediate style. The High Grade Core Intermediate strategy is a relative return focused mandate appropriate for investors with an indefinite investment horizon, seeking to maximize return with a lower degree of principal volatility than typical aggregate market strategies. The minimum account size for this composite is \$2.5 million.
- ▶ **Corporate Index Replication (Corp 1-5):** The High Grade Core Intermediate Composite was created September 30, 2005. The Composite consists of all fully discretionary, fee paying separately managed accounts in the High Grade Core Intermediate style. The High Grade Core Intermediate strategy is a relative return focused mandate appropriate for investors with an indefinite investment horizon, seeking to maximize return with a lower degree of principal volatility than typical aggregate market strategies. The minimum account size for this composite is \$2.5 million.

Index Definitions:

It is not possible to invest directly in an index. Investors pursuing a strategy similar to an index may experience higher or lower returns and will bear the cost of fees and expenses that will reduce returns.

Bloomberg Barclays 1-3 Yr Gov/Credit is the 1-3 Yr component of the U.S. Government/Credit Index. The Government/Credit Index includes securities in the Government and Credit Indices. The Government Index includes Treasuries (i.e., public obligations of the U.S. Treasury that have remaining maturities of more than one year) and agencies (i.e., publicly issued debt of U.S. Government agencies, quasi-federal corporations, and corporate or foreign debt guaranteed by the U.S. Government). The Credit Index includes publicly issued U.S. corporate and foreign debentures and secured notes that meet specified maturity, liquidity, and quality requirements. **Bloomberg Barclays 1-3 Yr Gov/Credit Ex BBB** is the same index as previous but excludes BBB securities. **Bloomberg Barclays Intermediate Aggregate Index** is the intermediate component of the US Aggregate Index. The Bloomberg Barclays U.S. Aggregate Index represents securities that are SEC-registered, taxable, and dollar denominated. The index covers the U.S. investment grade fixed rate bond market, with index components for government and corporate securities, mortgage pass-through securities, and asset-backed securities. These major sectors are subdivided into more specific indices that are calculated and reported on a regular basis. **The Bloomberg Barclays Intermediate Aggregate ex CMBS/ABS/BBB Index** is the same index as previous but excludes commercial mortgage backed securities (CMBS), asset backed securities (ABS), and BBB rated bonds. **Bloomberg Barclays Intermediate Government Index** includes Treasuries (i.e., public obligations of the U.S. Treasury that have remaining maturities of more than one year) and agencies (i.e., publicly issued debt of U.S. Government agencies, quasi-federal corporations, and corporate or foreign debt guaranteed by the U.S. Government) between 1-10 years maturity. **Bloomberg Barclays U.S. Corporate Investment Grade Index** is a rules-based and market value weighted index of publicly issued U.S. corporate bonds. To be included in the index, bonds must be rated investment-grade (Baa3/BBB- or higher) by at least two of the following ratings agencies: Moody's, S&P, Fitch. Bonds in the Index must have at least one year to final maturity regardless of call features and have at least \$250 million par amount outstanding. Bonds in the Index must be fixed rate, although it can carry a coupon that steps up or changes according to a predetermined schedule, must be dollar-denominated and non-convertible and must be publicly issued. **The Bloomberg Barclays 1-5 Corporate Index** is the 1-5 year component of the Corporate Index. **The Bloomberg Barclays Intermediate Corporate Index** is the Intermediate component of the Corporate Index.