

GLOBAL INVESTMENT OUTLOOK 2020

FROM THE GLOBAL CIO OFFICE

By Candice Bangsund, Vice President and
Portfolio Manager, Global Asset Allocation



FIERACAPITAL

— 2020 OUTLOOK: RECEDING RISKS REVITALIZE THE GLOBAL ECONOMY

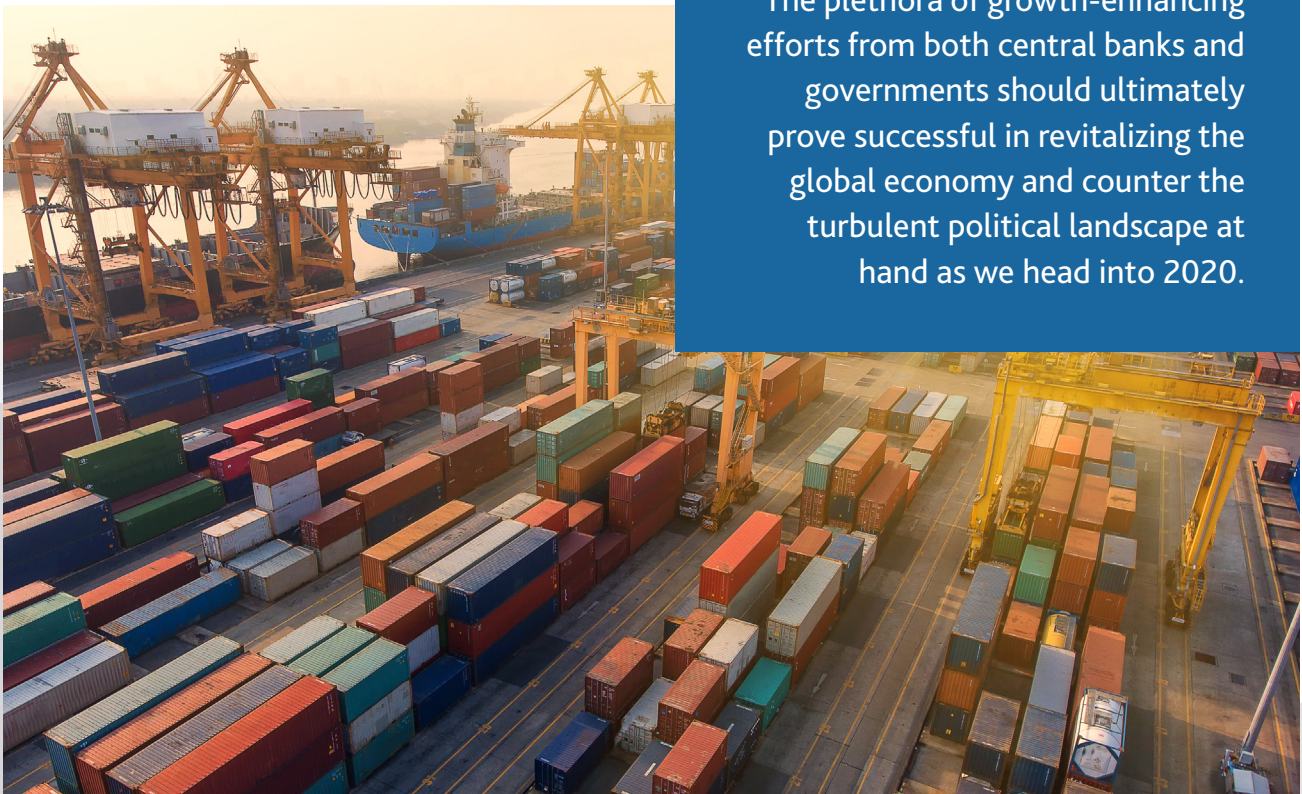
Over the last year, sentiment remained fragile as unnerved investors digested a flurry of trade-related and geopolitical headlines that sparked fears of a pronounced global slowdown. The good news, however, is that we are likely past the point of peak pessimism on the state of the global economy, with some nascent signs that the worst may finally be behind us.

While the consumer has been a pivotal source of strength, improving manufacturing results out of the US, Europe, and China have validated our expectations for a reacceleration in global growth after several months of trade-induced angst that's battered the factory space.

Encouragingly, the US-Sino trade spat has subsided amid some conciliatory signals from both sides and a willingness to come to some sort of truce that would remove a key overhang that's plagued sentiment and growth. Tensions have receded as President's Trump and Xi get closer to signing a "phase one" deal, with the potential for a ceasefire or even a rollback in existing tariffs. And across the Atlantic,

the likelihood of a disorderly Brexit scenario has declined substantially, limiting the potential for a severe economic fallout in Europe.

Finally, policymakers across the world have stepped-up and pledged their unrelenting support and are no where near removing the proverbial punchbowl. The plethora of growth-enhancing efforts from both central banks and governments should ultimately prove successful in revitalizing the global economy and counter the turbulent political landscape at hand as we head into 2020.



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— INVESTMENT STRATEGY: REFLATIONARY IMPULSE EMBOLDENS THE RISK-ON TRADE

After the powerful rally in both stocks and bonds in 2019, questions have emerged as to where to find value going forward. As policy uncertainty dissipates, we expect the environment of stabilizing growth prospects to boost risk assets in the coming year. What's more, central bankers have assumed an increased tolerance for exceeding their inflation targets and a willingness to let the economy run hot in order to sustain the record-long expansion, with positive implications for stocks, commodities (ex-gold) and other riskier asset classes at the expense of bonds and the US dollar.

Fixed Income (Underweight)

We expect yield curves to steepen, with only modest repricing at the short end of the curve as policymakers pursue a sidelined approach. While central banks are likely done cutting rates (barring a severe deterioration in the macro backdrop), the bar for rate hikes remains high as policymakers maintain an increased tolerance for higher inflation until expectations become well-anchored. Meanwhile, the improved growth backdrop that fuels a modest revival in inflation expectations is expected to place upward pressure on the long end of the curve. That being said, the backup will be fairly modest by historical standards and will not destabilize economic or financial conditions, thanks to the accommodative central bank impetus that anchors rates at the short-end of the curve.

What's more, bond investors have largely exaggerated economic softness in 2019 and bond bulls could find themselves in a vulnerable position as macroeconomic tensions subside, with increased clarity on the global backdrop sparking an exodus out of bonds that are overvalued, overbought, and overcrowded – with the unwind accentuating the upward move in bond yields.

In this environment, we maintain our underweight allocation to fixed income. Within the asset class, we maintain a short duration positioning, while also looking further up the risk spectrum towards spread product and inflation protection – both of which should thrive in the pro-cyclical environment of negligible recession (default) risks and rising inflation expectations.

Equities (Overweight)

Equities have been resilient in the wake of the flurry of trade headlines and geopolitical risks this year. Year-to-date gains have predominately been driven by multiple expansion, whereby investors bid-up what they were willing to pay for equities given the string of pro-growth measures from global central banks and speculation for an amicable outcome on trade.

Looking ahead, we expect equity markets to continue grinding higher on the combination of both multiple expansion and earnings growth. Notably, stimulative central bank policies will help to nurture the recovery and extend the duration of the expansion, which should ultimately increase what investors are willing to pay for equities. Meanwhile, we expect earnings to play a more meaningful role going forward and momentum should improve on the back of a reinvigorated global growth backdrop. With so much gloom on the state of the economy, the bar is low for upside surprises to earnings forecasts and accordingly, equity prices.

And while valuations have indeed risen in 2019, they are not yet in threatening territory, especially given the low (and in some cases, negative) interest rate environment that warrants above-average valuations. Moreover, with on-edge investors spending most of 2019 piling into cash and bonds, there's plenty of dry powder prime for redeployment back into the equity space should investors embrace that the worst is indeed behind us.

Where's the Value?

We expect the growth-domination that's led equity performance to reverse course as investors embrace the improved fortunes for the global economy and the corresponding rise in interest rates. Above-average market valuations should prove challenging for growth stocks and will make it difficult for these overcrowded sectors to absorb higher interest rates. As such, investors will be in search for a compelling value proposition within the equity space which should induce a rotation towards the under-owned and underappreciated value-oriented space, with important implications for the financials, resources, and industrials sectors of the marketplace.

UNITED STATES STRATEGY: NEUTRAL



The glaring outperformance of US equities has likely run its course after a prolonged stretch of growth strategies overshadowing their value counterparts. Relatively speaking, the S&P 500 appears both overvalued and over owned compared to its non-US peers.

CANADA STRATEGY: OVERWEIGHT



The Canadian equity market remains an appealing place to invest, with the S&P/TSX trading at a steep discount to the S&P 500. With close to two-thirds of the index concentrated in cyclically-levered, value sectors, we feel the TSX is a prime candidate for further upside from here.

EMERGING MARKETS STRATEGY: OVERWEIGHT



Emerging markets look particularly compelling at these undemanding levels. Positioning remains too pessimistic in the context of superior growth prospects versus the developed world and expectations for a weaker dollar, while the reflationary impulse in China and a détente in the trade war should also alleviate some pressure on emerging market assets that have assumed the brunt of the pain associated with lingering trade tensions.

INTERNATIONAL DEVELOPED STRATEGY: UNDERWEIGHT



We remain underweight European and Japanese equities. Persistently stagnant growth across the Eurozone and a vulnerable banking sector could hinder financial conditions and European equity performance, while uncertainty regarding the future of the United Kingdom continues to place undue pressure on UK stocks and strength in the yen threatens to dampen Japan's export-oriented market.

Currency Outlook

DXY

The US dollar is another overcrowded trade that is vulnerable should the global economy indeed stabilize and improve in the coming year. Looking ahead, we believe that the path of least resistance for the dollar remains structurally weaker as receding trade headwinds, a revival in global growth, and the corresponding return of risk appetite weighs on the countercyclical currency – which would ultimately benefit other pro-cyclical currencies such as the Canadian dollar and euro.

CAD/ USD

The Canadian dollar should remain well-supported by narrowing interest rate differentials between the US and Canada, which when combined with our expectation for higher crude prices, bodes well for the loonie in the coming year.

EUR/ USD

The euro has room to run should the export-oriented economy find some ground after being the main casualty of the trade war in 2019, which would be amplified by an avoidance of the “hard” Brexit scenario.

GBP/USD

The fortunes of the pound centres around the outcome of the UK general elections in December – where PM Boris Johnson is expected to secure a stable majority that would remove the immediate threat of a no-deal Brexit and boost the pound.

Commodity Outlook

OIL

The outlook for crude prices hinges directly on a cordial outcome to the US-China trade spat that would rejuvenate global growth prospects and accordingly, demand for oil. What’s more, efforts from OPEC and its allies should prove successful in stemming the damage from bloated US stockpiles which when taken together should help the market find a better balance over the next twelve months.

GOLD

Conflicting forces leave us neutral on gold in the coming year. While bullion should indeed thrive in the environment of softer US dollar conditions, low real rates, and sporadic bouts of geopolitical upheaval that add to gold’s allure as a haven, the improved fortunes of the global economy and the corresponding return of risk appetite should place a cap on any material gains.

COPPER

We remain bullish on copper prices, owing mainly to the reflationary efforts from Chinese policymakers that should ultimately bolster the global demand backdrop, while a weaker dollar should also lend support.

— RISKS: GEOPOLITICAL INSTABILITY

We are however mindful that there are a number of factors that could derail this optimistic outlook. The biggest risk to our base case scenario for a recalibration in global growth is a rise in protectionist policies stemming from the US and the threat of a full-blown trade war that would disrupt the synchronous global expansion. An escalation in the trade debacle would be detrimental for trade flows and hence, the global economy and risky asset classes alike. In addition, the political landscape in Europe and the UK remains highly uncertain, with the fortunes for these economies hinging on the outcome of the UK general elections in December and the path towards an inevitable exit from the European Union. Finally, anti-business rhetoric from the Democrats and presidential impeachment inquiries risks creating pockets of volatility as we head into the 2020 election year.

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<p>Montreal Fiera Capital Corporation 1981 McGill College Avenue Suite 1500 Montreal, Quebec H3A 0H5 T 1 800 361-3499</p>	<p>Toronto Fiera Capital Corporation 1 Adelaide Street East Suite 600 Toronto, Ontario M5C 2V9 T 1 800 994-9002</p>	<p>Calgary Fiera Capital Corporation 607 8th Avenue SW Suite 300 Calgary, Alberta T2P 0A7 T 403 699-9000</p>	<p>Vancouver Fiera Capital Corporation 1040 West Georgia Street Suite 520 Vancouver, British Columbia V6E 4H1 T 1 877 737-4433</p>
<p>New York Fiera Capital Inc. 375 Park Avenue 8th Floor New York, New York 10152 T 212 300-1600</p>	<p>Boston Fiera Capital Inc. One Lewis Wharf 3rd Floor Boston, Massachusetts 02110 T 857 264-4900</p>	<p>Dayton Fiera Capital Inc. 10050 Innovation Drive Suite 120 Dayton, Ohio 45342 T 937 847-9100</p>	<p>Los Angeles Bel Air Investment Advisors 1999 Avenue of the Stars Suite 3200 Los Angeles, California 90067 T 1 877 229-1500</p>
EUROPE		ASIA	
<p>London Fiera Capital (UK) Limited 39 St James's Street London, United Kingdom SW1A 1JD T +44 20 7518 2100</p>	<p>Frankfurt Fiera Capital (UK) Limited Walther-von-Cronberg-Platz 13 Frankfurt, Germany 60594 T +49 69 9202 0750</p>	<p>Hong Kong Clearwater Capital Partners Suite 3205 No. 9 Queen's Road Central Hong Kong T 852-3713-4800</p>	<p>Singapore Clearwater Capital Partners 6 Temasek Boulevard #38-03 Suntec Tower 4 Singapore 038986</p>

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