

TACTICAL ASSET ALLOCATION COMMITTEE MONTHLY COMMENTARY

DECEMBER 2019



FIERACAPITAL

Risk appetite prevailed once again in November as investors embraced some favourable developments on the trade, political, and global growth fronts. Of note, investors welcomed news of progress towards a “phase one” trade deal and even the possibility of a rollback in existing tariffs. Meanwhile, the latest polls revealed that PM Boris Johnson is expected to secure a stable majority at the December elections - which would ultimately remove the immediate threat of a no-deal Brexit. Finally, there was some good news on the state of the global economy, where the outlook has brightened and economic indicators appear to be firming in an encouraging sign that the worst of the factory-driven downturn may be behind us.

FINANCIAL MARKET DASHBOARD

	NOV. 29, 2019	NOV.	YTD	1 YEAR
EQUITY MARKETS		% PRICE CHANGE (LC)		
S&P 500	3141	3.40%	25.30%	13.80%
S&P/TSX	17040	3.38%	18.97%	12.12%
MSCI EAFE	1974	0.97%	14.80%	9.11%
MSCI EM	1040	-0.19%	7.69%	4.56%
FIXED INCOME (%)		BASIS POINT CHANGE		
US 10 Year Bond Yield	1.78	8.5	-90.8	-121.2
US 2 Year Bond Yield	1.61	8.8	-87.6	-117.5
US Corp BBB Spread	1.38	-1.0	-48.0	-36.0
US Corp High Yield Spread	3.81	-20.0	-146.0	-42.0
CURRENCIES		% PRICE CHANGE		
CAD/USD	0.75	-0.88%	2.70%	0.09%
EUR/USD	1.10	-1.20%	-3.92%	-2.64%
USD/JPY	109.49	1.35%	-0.18%	-3.59%
COMMODITIES		% PRICE CHANGE		
WTI Oil (USD/bbl)	55.17	1.83%	21.49%	8.33%
Copper (USD/pound)	2.64	0.15%	0.42%	-4.88%
Gold (USD/oz)	1465.60	-3.25%	14.38%	20.11%

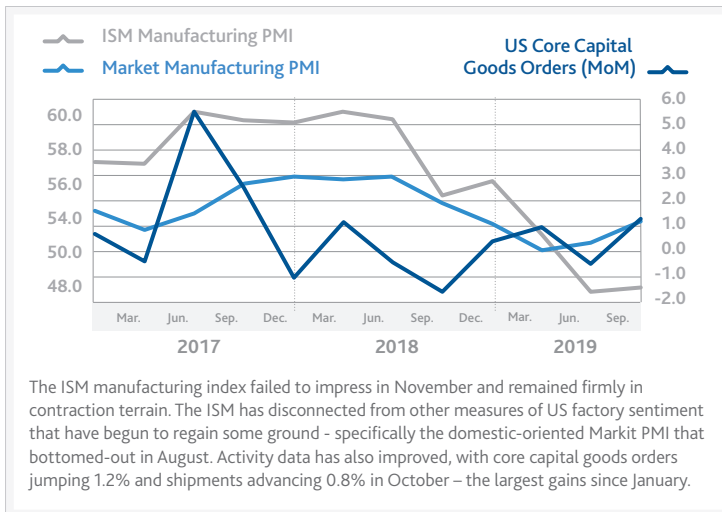
The risk-on mood permeated through global equity markets in November, with the MSCI All Country World advancing for a third straight month. Regionally speaking, North American bourses led the global charge, with both the S&P 500 and S&P/TSX breaching all-time highs several times throughout the month. Looking abroad, European and Japanese stocks also eked out some marginal gains, while in contrast, emerging market stocks bucked the global trend and posted their first monthly drop since August as uncertainty over US-China relations following building tensions in Hong Kong clouded the outlook for riskier assets in the developing world.

Government bond yields traded in a tight range throughout November and ended the month modestly higher. The biggest upward move took place at the short-end of the curve as the Federal Reserve converged towards a neutral policy stance after cutting rates three times in 2019, while the Bank of Canada expressed its confidence in the resilience of the economy and its reluctance to reduce interest rates at this time. The upward move in the long-end did not match that of the short-end and yield curves flattened modestly during the month.

In currency markets, the US dollar maintained some positive momentum and advanced broadly versus its G10 peers. The yen was the worst performing currency as unrelenting appetite for risk curbed the appeal of the safe haven currency. The euro headed for its biggest monthly slide since July even in the wake of economic and inflation results that surprised to the upside, while the Canadian dollar also lost some ground versus the dollar and posted its biggest monthly loss since May.

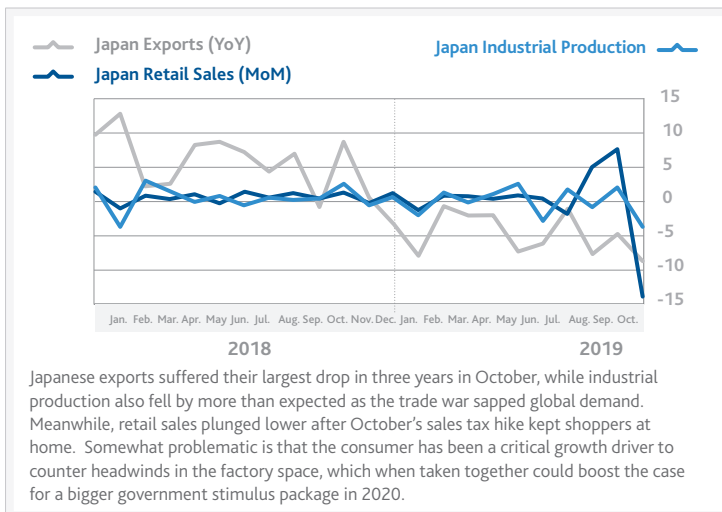
Finally in the commodity space, gold extended a retreat from September's six-year high and capped its worst month since 2016 amid optimism that US-Sino negotiators are edging closer towards an interim trade deal, while the strengthening US dollar also weighed. Oil capped a monthly gain in the environment of thriving appetite for risky assets - though pared some of those gains at month-end on signals that OPEC and its allies may be averse to deepening output cuts when they meet in early December. Copper rose for a third month as the improved tone to trade deliberations bolstered the demand outlook for the red metal, while depleted stockpiles also lent support.

TACTICAL ASSET ALLOCATION COMMITTEE MONTHLY COMMENTARY



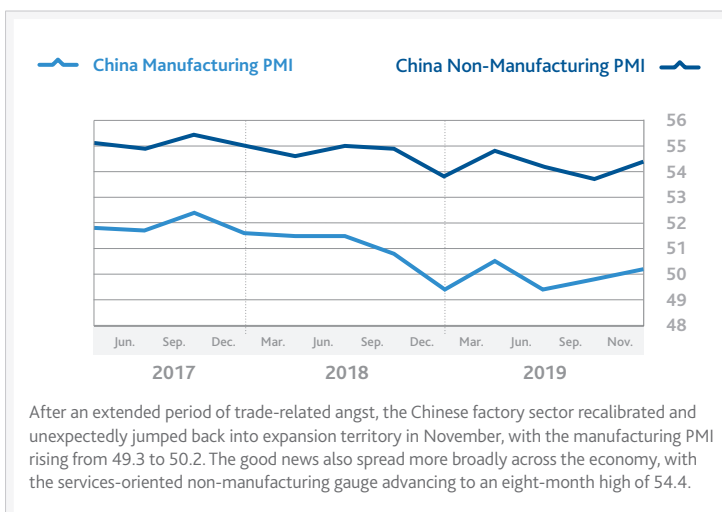
USA

The resilience of the US consumer has helped to shelter the world's largest economy from persistent woes in the factory space. The consumer has been a pivotal source of strength and continues to drive the record-long expansion, thanks to a solid job market that has bolstered confidence and spending. Meanwhile, there are some tentative signals that the slump in the factory sector may be winding down. While the bellwether ISM manufacturing index indeed remained in contraction territory in November, the latest revival in foreign factory sentiment (specifically in Germany and China) should have positive spillover effects for the US manufacturing space going forward. Moreover, demand for US business equipment unexpectedly climbed by the most in nine months in October in a hopeful sign that US companies may finally be ready to ramp up investment as US-Sino trade tensions subside.



INTERNATIONAL

Looking abroad, European growth prospects have brightened somewhat after several months of stalemate, with survey data improving across both the business and consumer space on speculation for an amicable outcome to the US-China trade negotiations and hopes that the UK election in December will lead to a "soft" Brexit scenario – which when taken together have added to recent evidence that the 19-nation economy may be through the worst of its latest slump. That said, the fortunes for the Japanese economy remain more unclear. Steep declines in exports, retail sales, and factory production have come at a time when the government is mulling the size of a spending package to combat the global slowdown and the sales tax hike that's dampened growth – though pronounced weakness could potentially boost the case for a bigger government stimulus package next year.



EMERGING

The Chinese economy appears to be finding some stability after what's been a tumultuous 2019. Both the factory and services PMI surveys jumped higher in November, with the manufacturing gauge moving back into expansion terrain for the first time since April. Encouragingly, factory activity improved across the board, with the sub-index of new export orders climbing to a seven-month high and new orders also pushing back above the 50-line that divides expansion from contraction. Similarly, the non-manufacturing index remained robust and advanced to its highest level since March. Taken together, it would appear that the plethora of reflationary efforts from both monetary and fiscal policymakers finally appear to be bearing fruit, while easing trade tensions have also offered a glimmer of hope that the worst may be behind the world's second largest economy and by extension, global growth prospects.

Source: Bloomberg most recent data as of October 31, 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.



MAIN SCENARIO

SUSTAINED GLOBAL EXPANSION

PROBABILITY 60%



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 30%



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 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 some concessions from China, vulnerabilities remain due to the sizeable trade deficit in the US. Notably, trade tribulations between the world's two largest economies have intensified with higher tariffs for both the US and China, while pressure between these two countries likely to prevail over the near-term as negotiations linger on unresolved with no concrete deal and the added threat of further escalation from here. Meanwhile, Trump's focus may then 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. Taken together, an escalation in the trade debacle would be detrimental for trade flows and hence, the global economy. Finally, a period of heightened uncertainty has recommenced in the UK as newly-elected Prime Minister Boris Johnson takes a hardline approach, increasing the odds of a "hard Brexit" scenario.

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.

TACTICAL ASSET ALLOCATION COMMITTEE

MONTHLY COMMENTARY



FORECASTS FOR THE NEXT 12 MONTHS				
SCENARIOS	NOVEMBER 29, 2019	SUSTAINED GLOBAL EXPANSION	POLITICAL INSTABILITY	STAGFLATION
PROBABILITY		60%	30%	10%
GDP GROWTH (Y/Y)				
Global	3.20%	3.25%	2.00%	2.75%
U.S.	2.10%	2.25%	1.00%	2.75%
INFLATION (HEADLINE Y/Y)				
U.S.	1.80%	2.00%	2.00%	3.00%
U.S. RATES				
Fed Funds	1.75%	1.75%	1.50%	2.75%
10-Year Treasuries	1.78%	2.50%	2.25%	4.00%
30-Year Treasuries	2.21%	2.80%	2.50%	4.25%
PROFIT ESTIMATES (12 MONTHS FORWARD)				
S&P 500	162	175	150	160
MSCI EAFE	133	130	120	120
MSCI EM	81	85	65	77
P/E (FORWARD 12 MONTHS)				
S&P 500	17.8X	19.0X	15.0X	16.0X
MSCI EAFE	14.8X	15.5X	12.0X	13.5X
MSCI EM	12.8X	14.0X	11.0X	11.5X
CURRENCIES				
EUR/USD	1.10	1.16	1.10	1.10
USD/JPY	109.49	105.00	100.00	120.00
GBP/USD	1.29	1.25	1.20	1.15
CAD/USD	0.75	0.80	0.70	0.80
COMMODITIES				
Oil (WTI, USD/barrel)	55.17	70.00	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.

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MATRIX OF EXPECTED ANNUAL RETURNS (USD)

SCENARIOS	SUSTAINED GLOBAL EXPANSION	POLITICAL INSTABILITY	STAGFLATION
PROBABILITY	60%	30%	10%
US Money Market	1.8%	1.6%	2.3%
US Bonds	-3.7%	-1.8%	-13.4%
US Equity	5.9%	-28.4%	-18.5%
International Equity	2.1%	-27.1%	-18.0%
Emerging Market Equity	14.4%	-31.3%	-14.9%

CURRENT STRATEGY¹

	MINIMUM	BENCHMARK	MAXIMUM	STRATEGY	ALLOCATION	RELATIVE
MONEY MARKET	0.0%	5.0%	25.0%	Neutral	5.0%	0.0%
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	75.0%	+10.0%
US Equity	10.0%	35.0%	60.0%	Overweight	37.5%	+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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Information related to indices and benchmarks has been provided by, and/or is based on third party sources, and although believed to be reliable, has not been independently verified. No representation is made that any benchmark or index is an appropriate measure for comparison. 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, which will reduce returns. Index results assume the reinvestment of all dividends and capital gains. 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.

ISM Non-Manufacturing Index is created by the Institute for Supply Management Non-Manufacturing, using information collected from surveys from over 400 non-manufacturing companies. An index with a score over 50 indicates that the industry is expanding, and a score below 50 shows a contraction.

The ISM Manufacturing Index is based on surveys of more than 300 manufacturing firms by the Institute for Supply Management (ISM). The ISM Manufacturing Index monitors employment, production, inventories, new orders and supplier deliveries. A composite diffusion index monitors conditions in national manufacturing and is based on the data from these surveys.

The Eurozone Services PMI (Purchasing Managers' Index) is based on data collected from a representative panel of around 2,000 private service sector firms. National services data are included for Germany, France, Italy, Spain and the Republic of Ireland. The index tracks variables such as sales, employment, inventories and prices. A reading above 50 indicates that the services sector is generally expanding; below 50 indicates that it is generally declining. This page provides the latest reported value for - Euro Area Services PMI - plus previous releases, historical high and low, short-term forecast and long-term prediction, economic calendar, survey consensus and news.

The Eurozone Manufacturing Purchasing Managers' Index (PMI) measures the activity level of purchasing managers in the manufacturing sector. National manufacturing data are included for Germany, France, Italy, Spain and the Republic of Ireland. A reading above 50 indicates expansion in the sector; below 50 indicates contraction. Traders watch these surveys closely as purchasing managers usually have early access to data about their company's performance, which can be a leading indicator of overall economic performance.

JPM Global manufacturing PMI indices are compiled by IHS Markit from responses to monthly questionnaires sent to purchasing managers in survey panels in over 40 countries, totaling around 13,500 companies. These countries account for 98% of global manufacturing value added.

EM Manufacturing PMI indices are compiled by IHS Markit from responses to monthly questionnaires sent to purchasing managers in survey panels from 26 emerging market countries.

The China Manufacturing Purchasing Managers Index is based on a survey of around 700 to 800 companies. It is a government-sponsored survey aimed at tracking business conditions in the Chinese manufacturing sector ahead of official economic statistics, while also providing insight into wider economic trends