TACTICAL ASSET ALLOCATION COMMITTEE MONTHLY COMMENTARY

FEBRUARY 2020

FIERACAPITAL

Just as one source of investor angst faded at the beginning of 2020, another intensified. After simmering trade tensions fueled a blockbuster start to the year, sentiment took a turn for the worse after the outbreak of the Wuhan coronavirus threatened to derail an already-fragile global growth backdrop. The epidemic, and efforts to contain it has forced investors to reassess the outlook for the world's second-largest economy and by extension, global growth prospects. Importantly, Chinese policymakers responded swiftly with new measures to stem the damage to both financial markets and the economy – though uncertainty is surely to prevail in the near-term until the virus has been contained.

FINANCIAL MARKET DASHBOARD

	JAN. 31, 2020	JAN.	YTD	1 YEAR
EQUITY MARKETS		% PRICE CHANGE (LC)		
S&P 500	3226	-0.16%	-0.16%	19.28%
S&P/TSX	17318	1.49%	1.49%	11.44%
MSCI EAFE	1994	-2.12%	-2.12%	8.88%
MSCI EM	1062	-4.69%	-4.69%	1.18%
FIXED INCOME (%)		BASIS POINT CHANGE		
US 10 Year Bond Yield	1.51	-41.1	-41.1	-112.3
US 2 Year Bond Yield	1.31	-25.6	-25.6	-114.4
US Corp BBB Spread	1.32	7.0	7.0	-37.0
US Corp High Yield Spread	4.01	74.0	74.0	-26.0
CURRENCIES		% PRICE CHANGE		
CAD/USD	0.76	-1.87%	-1.87%	-0.85%
EUR/USD	1.11	-1.07%	-1.07%	-3.10%
USD/JPY	108.35	-0.24%	-0.24%	-0.50%
COMMODITIES		% PRICE CHANGE		
WTI Oil (USD/bbl)	51.56	-15.56%	-15.56%	-4.15%
Copper (USD/pound)	2.52	-10.01%	-10.01%	-9.61%
Gold (USD/oz)	1582.90	3.93%	3.93%	19.94%

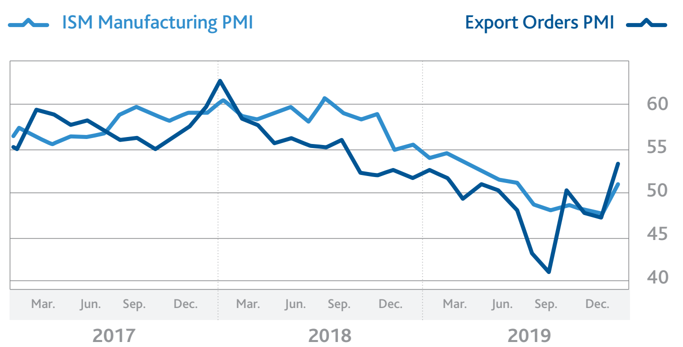
Equity markets were roiled by concerns that the spread of the deadly outbreak will undermine global growth prospects. Both the S&P 500 and Dow erased their year-to-date gains even after a decent start to the earnings season, while the S&P/TSX managed to buck the global trend and gained thanks to the sizeable gold exposure that acted as a hedge in what was a volatile month. Looking abroad, international developed markets dropped sharply as investors digested Wuhan-related headlines, while emerging markets assumed the brunt of the weakness, with MSCI's gauge of developing market stocks shedding nearly 5% in January.

The rising toll and rapid spread of the coronavirus saw investors seek a refuge in bonds, which drove yields back towards the panic-stricken lows witnessed last fall and spurred a sharp rise in the world's negative-yielding debt pile. US treasuries were in high demand, with memories of recession fears that plagued the markets last summer driving investors to the safety of government bonds. Yield curves flattened substantially in January. The US 10-year treasury yield collapsed by 41 basis to 1.51%, while the 30-year treasury yield dropped below 2% for the first time since October. And at the short-end, the 2 year treasury yield fell 26 basis points to 1.31% as investors raised their wagers for central bank rate cuts - even after a steady rate decision and a reasonably bright economic assessment from the Federal Reserve.

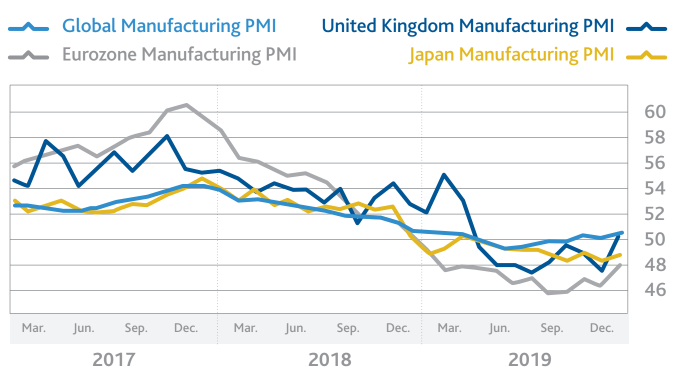
The US dollar recorded its best month since July as the tumultuous trading environment reaffirmed the safe haven status of the greenback. Only the swiss franc, Mexican peso, and yen managed to eke out a gain versus the dollar in January. In contrast, the Canadian dollar lost some momentum and posted its worst monthly loss since December 2018, while the euro and pound also lost some notable ground.

Finally, copper prices were pummelled as fears about the economic fallout stemming from the epidemic weighed on the demand outlook, where China accounts for half of demand globally. Similarly, oil prices tumbled lower as global growth fears and travel restrictions weighed on demand prospects, which came at the inopportune time when the world is already awash with crude. Meanwhile, gold broke out to a new post-2013 high as concerns about the fast-spreading pandemic boosted demand for haven assets and bolstered expectations that the Federal Reserve will keep rates low.

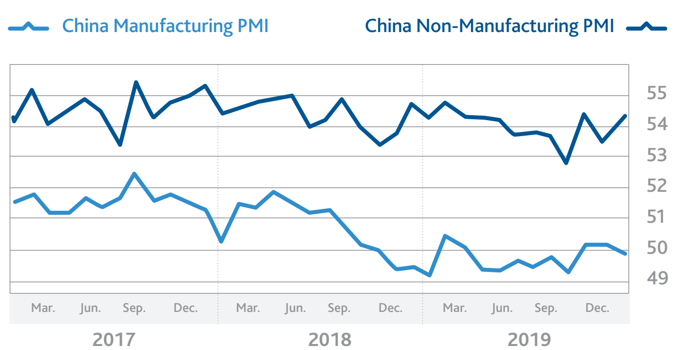
USA



The worst may finally be behind America's beleaguered factory sector. The closely-moni-tored ISM Manufacturing survey rose back into expansion terrain for the first time since July 2019, reflecting sizeable improvements in the orders and production components. Encouragingly, the export sub-index rebounded forcefully in January, with the partial trade deal with China providing impetus for further expansion.



The Global Manufacturing PMI advanced to 50.4 in January (from 50.1 in December) – marking its highest reading since April 2019. While the Markit US factory gauge retreated somewhat (to a still-expansionary 51.9), the Eurozone manufacturing PMI jumped to a nine-month high of 47.9, the United Kingdom manufacturing PMI rose back to 50.0, and the Japanese factory PMI advanced to 48.8.



While official PMI data revealed that the Chinese economy remained in expansion terrain early-on in 2020, these surveys were conducted before the extent of the deadly coronavirus and disruption to the economy were evident - which suggests that momentum is likely to dwindle as investors weigh travel restrictions and factory shutdowns against newly announced stimulus measures to stem the damage.

USA

The US factory sector found some solace early-on in the new year, with major breakthroughs on the trade front buoying sentiment. While the signing of the US-China phase one deal and ratification of USMCA in January should indeed reduce uncertainty and bolster both exports and investment, material gains are likely to be limited in the absence of an all-encompassing trade deal between the US and China, the looming protectionist bias in the US, and pandemic fears that restrict future investment intensions. As such, the mighty US consumer will continue to be the driving force in this 11th year of expansion, thanks to healthy labour markets and easy financial conditions that should boost confidence and spending. Meanwhile, the Fed provided a reasonably bright assessment for the US economy, suggesting that the coronavirus is unlikely to cause a policy rethink at this time.

INTERNATIONAL

The global factory sector showed further signs of stabilization in January, with broad based improvements across most major regions. While the signing of the phase one trade deal between the US and China lifted a key overhang from the global economy at the beginning of 2020, the viral outbreak in Wuhan poses some serious downside risks to an already-fragile recovery as negative growth impacts in China are almost surely to have some spillover effects across the globe. As such, the latest improvement in the global manufacturing space could be due for a near-term pause as firms brace for supply-chain disruptions and a blow to demand from the spread of the coronavirus. However, similar to previous epidemics, weakness should largely prove transitory in nature and result in a V-shaped recovery later this year, while the abundant liquidity backdrop should also lend support.

EMERGING

The Chinese economy entered the new year with some renewed momentum after a difficult 2019, thanks to simmering trade tensions and as the plethora of monetary and fiscal support finally began to bear fruit. Activity data in December revealed a pronounced comeback in retail sales, industrial production, and exports – while survey data also revived itself and indicated expansionary conditions across both the factory and service sectors. That said, the first official indicator on the health of the economy in 2020 signaled that the nation's factories were struggling even before the coronavirus outbreak worsened. While the economy is surely to deteriorate on the heels of business shutdowns and travel restrictions, the economic impact is likely to be short-lived – particularly as ramped-up stimulus measures help to revive the economy within two to three quarters once the virus has been contained.

Source: Bloomberg most recent data as of December 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.

USA

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.

USA

FIERA CAPITAL

FORECASTS FOR THE NEXT 12 MONTHS

SCENARIOS	JANUARY 31, 2020	SUSTAINED GLOBAL EXPANSION	POLITICAL INSTABILITY	STAGFLATION
PROBABILITY		65%	25%	10%
GDP GROWTH (Y/Y)				
Global	3.20%	3.25%	2.00%	2.75%
U.S.	2.30%	2.00%	1.00%	2.00%
INFLATION (HEADLINE Y/Y)				
U.S.	2.30%	2.50%	1.50%	3.00%
U.S. RATES				
Fed Funds	1.75%	1.75%	1.00%	2.00%
10-Year Treasuries	1.51%	2.75%	1.50%	3.25%
30-Year Treasuries	2.00%	3.00%	1.60%	3.50%
PROFIT ESTIMATES (12 MONTHS FORWARD)				
S&P 500	163	175	150	160
MSCI EAFE	138	130	113	120
MSCI EM	86	85	65	75
P/E (FORWARD 12 MONTHS)				
S&P 500	18.1X	19.0X	16.0X	16.0X
MSCI EAFE	14.5X	15.5X	12.0X	13.5X
MSCI EM	12.3X	14.5X	11.0X	11.5X
CURRENCIES				
EUR/USD	1.11	1.16	1.05	1.10
USD/JPY	108.35	105.00	95.00	120.00
GBP/USD	1.32	1.35	1.15	1.30
CAD/USD	0.76	0.80	0.65	0.83
COMMODITIES				
Oil (WTI, USD/barrel)	51.56	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.

USA

MATRIX OF EXPECTED ANNUAL RETURNS (USD)

SCENARIOS	SUSTAINED GLOBAL EXPANSION	POLITICAL INSTABILITY	STAGFLATION
PROBABILITY	65%	25%	10%
US Money Market	1.8%	1.4%	1.9%
US Bonds	-7.2%	0.1%	-10.3%
US Equity	3.1%	-25.6%	-20.6%
International Equity	1.1%	-32.0%	-18.7%
Emerging Market Equity	16.0%	-32.7%	-18.8%

CURRENT STRATEGY [1]

	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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INDEX DEFINITIONS

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.

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. Export Orders PMI measure the movement of merchandise trade leaving a country. This measure tracks the value of merchandise trade by the Institute for Supply Management (ISM).

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 (see table, right for full coverage), totalling around 13,500 companies. These countries account for 98% of global manufacturing value added UK Manufacturing Purchasing Managers' Index measures the performance of the manufacturing sector and is derived from a survey of 600 industrial companies. The Manufacturing Purchasing Managers Index is based on five individual indexes with the following weights: New Orders (30 percent), Output (25 percent), Employment (20 percent), Suppliers' Delivery Times (15 percent) and Stock of Items Purchased (10 percent), with the Delivery Times index inverted so that it moves in a comparable direction. A reading above 50 indicates an expansion of the manufacturing sector compared to the previous month; below 50 represents a contraction; while 50 indicates no change.

The Japan Manufacturing Purchasing Managers' Index measures the performance of the manufacturing sector and is derived from a survey of 400 industrial companies. The Manufacturing Purchasing Managers Index is based on five individual indexes with the following weights: New Orders (30 percent), Output (25 percent), Employment (20 percent), Suppliers' Delivery Times (15 percent) and Stock of Items Purchased (10 percent), with the Delivery Times index inverted so that it moves in a comparable direction. A reading above 50 indicates an expansion of the manufacturing sector compared to the previous month; below 50 represents a contraction; while 50 indicates no change.

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.

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.

In China, the Non-Manufacturing purchasing managers index survey is based on data collected from a representative panel of 1200 enterprises from the non-manufacturing sector. The survey includes ten questions on business activity, new orders, new export orders, in hand orders index, stock, intermediate input price, subscription price, employment, supplier delivery time, and business activities expectation. For each question, the diffusion index is calculated.

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