TACTICAL ASSET ALLOCATION COMMITTEE MONTHLY COMMENTARY

MARCH 12, 2020

FIERA CAPITAL

MAIN SCENARIO

SUSTAINED GLOBAL EXPANSION

PROBABILITY 55%

The novel coronavirus poses some notable downside risks in the near-term amid efforts to contain its spread, which sparks a temporary slowdown in global economic activity during the first half of 2020. Specifically, global firms brace for supply-chain disruptions amid factory closures that have crippled production, while quarantines, travel restrictions, cancelled events, and a fearful population entering lockdown-mode acts as a blow to the consumer-driven services sector. As such, we expect growth to deteriorate substantially during the second quarter and to weigh on corporate earnings. However, the slump will prove transitory in nature as policymakers aggressively ramp-up their efforts to stem the damage – both on the monetary and fiscal fronts. Taken together, our base case forecast assumes that the number of COVID-19 infections peaks and moderates during the second quarter, pent-up demand is unleashed, and global economic activity normalizes in the second half of 2020, with the trifecta of monetary stimulus, government spending, and low oil prices amplifying the recovery and alleviating the strain on risk assets. As such, our reflationary base case scenario for a **Sustained Global Expansion** has been delayed, not derailed. The environment of reaccelerating economic growth, ultra-accommodative monetary policy settings, and receding virus-related angst creates a lucrative backdrop for investors and bodes well for equities and commodities at the expense of fixed income and the US dollar.

SCENARIO 2

GLOBAL RECESSION

PROBABILITY 35%

Failure to contain the coronavirus outbreak morphs into a global pandemic and sparks a full-blown recession and bear market in stocks. In this calamitous scenario, virus mitigation efforts from governments that include quarantines, work stoppages, and restricted mobility fuels a steep contraction in global economic activity, with broad based weakness across both the consumer and business sectors. Specifically, extensive factory closures paralyze global supply chains and cripples production, which in turn weighs on revenues and corporate profitability. These factors become self-fulfilling in that the loss of business revenues and potential for corporate bankruptcies results in job losses that further dampen spending intensions and economic activity well beyond the lifespan of the epidemic. Meanwhile, efforts to contain the virus such as restrictions on mobility induces a profound collapse in travel and tourism, which when combined with heightened levels of panic in general keeps consumers isolated and reluctant to spend.

SCENARIO 3

POLITICAL INSTABILITY

PROBABILITY 10%

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.

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FORECASTS FOR THE NEXT 12 MONTHS

SCENARIOS	MARCH 11, 2020	SUSTAINED GLOBAL EXPANSION	GLOBAL RECESSION	POLITICAL INSTABILITY
PROBABILITY		55%	35%	10%
GDP GROWTH (Y/Y)				
Global	3.00%	2.50%	1.50%	2.00%
U.S.	2.30%	2.00%	-0.50%	0.75%
INFLATION (HEADLINE Y/Y)				
U.S.	2.30%	1.75%	0.50%	1.25%
U.S. RATES				
Fed Funds	1.25%	0.25%	0.00%	0.50%
10-Year Treasuries	0.87%	1.25%	0.50%	1.00%
30-Year Treasuries	1.39%	2.00%	0.75%	1.25%
PROFIT ESTIMATES (12 MONTHS FORWARD)				
S&P 500	164	170	130	150
MSCI EAFE	134	120	95	113
MSCI EM	81	75	60	65
P/E (FORWARD 12 MONTHS)				
S&P 500	15.4X	19.0X	17.0X	16.0X
MSCI EAFE	12.4X	16.0X	14.0X	12.0X
MSCI EM	11.7X	15.0X	11.0X	11.0X
CURRENCIES				
EUR/USD	1.13	1.16	1.05	1.05
USD/JPY	104.54	110.00	90.00	95.00
GBP/USD	1.28	1.35	1.30	1.15
CAD/USD	0.73	0.75	0.60	0.65
COMMODITIES				
Oil (WTI, USD/barrel)	32.98	40.00	20.00	30.00

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	GLOBAL RECESSION	POLITICAL INSTABILITY
PROBABILITY	55%	35%	10%
US Money Market	0.8%	0.6%	0.9%
US Bonds	-3.5%	0.9%	-2.0%
US Equity	17.8%	-19.4%	-12.5%
International Equity	15.4%	-20.1%	-18.5%
Emerging Market Equity	18.8%	-30.3%	-24.5%

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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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.

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