TACTICAL ASSET ALLOCATION COMMITTEE MONTHLY COMMENTARY

JUNE 2020

FIERA CAPITAL

Investor optimism flourished for a second straight month in May and risky assets maintained their resilience on speculation that global growth will recover rapidly as lockdowns are eased and economies progressively reopen, while the wave of monetary and fiscal stimulus measures and hopes for a COVID vaccine also emboldened the risk-on trade. At the same time, investors have largely turned a blind eye to renewed frictions between the US and China that have been exacerbated by the latest developments in Hong Kong – which are almost certain to test already-fragile relations between the world's two largest economies.

FINANCIAL MARKET DASHBOARD

	MAY 29, 2020	MAY	YTD	1 YEAR
EQUITY MARKETS		% PRICE CHANGE (LC)		
S&P 500	3044	4.53%	-5.77%	10.62%
S&P/TSX	15193	2.79%	-10.96%	-5.27%
MSCI EAFE	1725	4.07%	-15.31%	-5.08%
MSCI EM	930	0.58%	-16.54%	-6.78%
FIXED INCOME (%)		BASIS POINT CHANGE		
US 10 Year Bond Yield	0.65	1.3	-126.5	-147.2
US 2 Year Bond Yield	0.16	-3.5	-140.9	-176.2
US Corp BBB Spread	2.02	-16.0	77.0	40.0
US Corp High Yield Spread	6.37	-106.0	310.0	192.0
CURRENCIES		% PRICE CHANGE		
CAD/USD	0.73	1.23%	-5.70%	-1.88%
EUR/USD	1.11	1.33%	-1.00%	-0.61%
USD/JPY	107.83	0.61%	-0.72%	-0.42%
COMMODITIES		% PRICE CHANGE		
WTI Oil (USD/bbl)	35.49	88.38%	-41.88%	-33.66%
Copper (USD/pound)	2.43	3.04%	-13.28%	-8.12%
Gold (USD/oz)	1736.90	2.52%	14.04%	33.01%

Global equity markets thrived in May and continued to claw back their COVID-induced losses from earlier in the year. The S&P 500 led the global charge, thanks to the ever-expanding outperformance in the technology and healthcare space – though the recovery broadened out toward cyclical sectors at month-end. The Canadian equity market also joined the upswing and has recouped 35% from its March lows. European markets were buoyed as major economies began to reopen, while the European Commission's plans for a fiscal recovery package also lent support. Finally, emerging market stocks rose, albeit to a lesser extent as investors weighed prospects for a revival in the world economy against the re-emergence of tensions between the US and China.

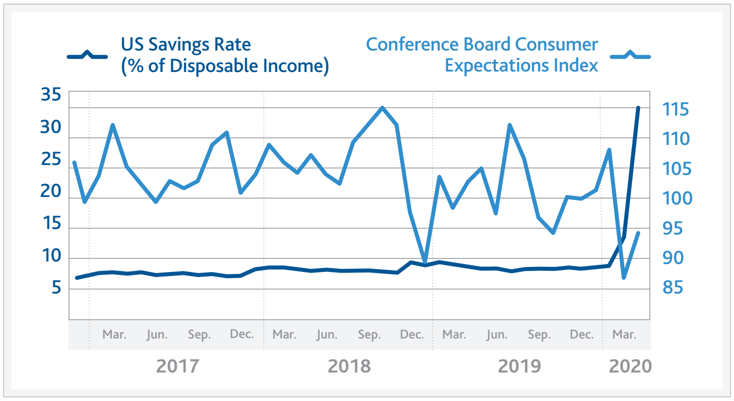
Government bond yields traded in a narrow range, even in the environment of boisterous risk appetite. Improved sentiment has failed to put any notable upward pressure on bond yields, owing to the abundance of central bank support that has helped to absorb incoming supply and placed a cap on government yields. Meanwhile, corporate and high yield spreads narrowed in a sign that bondholders are positioning for a revitalization in economic activity, while the central bank backstop has also boosted appetite for credit.

The US dollar lost some ground in May as easing lockdowns and improved risk appetite sapped the appeal of the safe haven currency. The Canadian dollar hit a two-month high alongside the sharp recovery in crude prices, while the euro breached its strongest level in two months after the European Union unveiled a robust recovery plan. The pound declined as Bank of England officials expressed an openness to adopting negative interest rates, while lack of progress on the ongoing Brexit deliberations also undermined the currency.

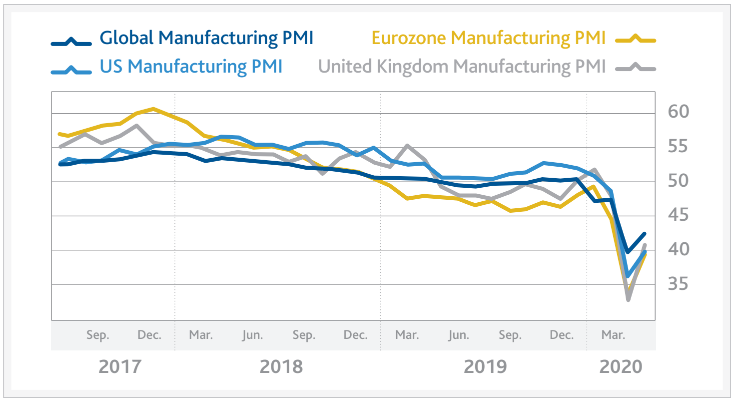
Crude oil soared 88% in May, marking its biggest monthly gain on record as sharp production cuts and some nascent signs of rebounding demand helped to alleviate the massive glut in the oversupplied market. US rig counts have declined back to 2009 levels and the OPEC consortium has drastically slashed output, which has reduced the risk that global storage facilities may become filled to the brim and helped the market to find a better balance. Copper advanced on signs that the global economy troughed in the second quarter, with manufacturing surveys pointing to a recovery in demand for the red metal. Finally, gold managed to cap its third straight monthly advance on fears of deteriorating US-Sino relations, while unprecedented central bank stimulus efforts have also placed a durable floor under bullion prices.

USA

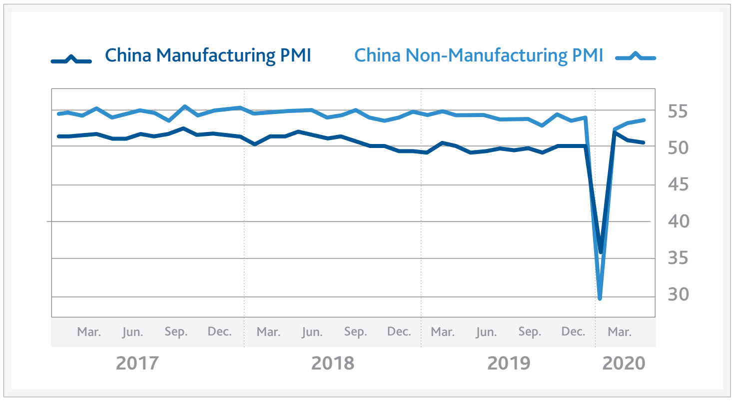
TACTICAL ASSET ALLOCATION COMMITTEE MONTHLY COMMENTARY



The US savings rate surged to a record 33% of disposable income in April, reflecting the fact that households did not spend the stimulus windfall received from the government. However, the elevated savings rate is likely to prove temporary as the economy reopens and as consumers feel emboldened to spend again. Indeed, the Conference Board Consumer Expectations index rose for a second straight month in May.



The worst of the virus-related slump appears to be behind us as widespread lockdowns eased in May and saw major economies begin to claw their way out of the doldrums. The global manufacturing PMI hooked up to 42.4 in May from its historic April low, with notable improvements in the US, Europe, and the UK. Similar to the experience in China, the recovery should gain further ground in June as restrictions are relaxed further across developed economies.



The official purchasing manager indices revealed that the Chinese economic revival extended into May, albeit at an uneven pace. The relative strength in the non-manufacturing gauge highlighted the improvement in services-related sectors amid increased mobility and an easing of social distancing measures, while the manufacturing gauge unexpectedly pulled back as flagging foreign demand for Chinese goods weighed on the factory sector.

USA

US consumer spending plunged by the most on record in April as the COVID crisis halted purchases of all but the most essential goods and services. At the same time, personal incomes soared higher, with the substantial boost owing to expanded unemployment insurance benefits and one-time checks from the government. As a result, the savings rate surged to a historic 33% of disposable income as households refrained from spending the windfall and instead built-up a safety cushion. Looking forward, spending is all but certain to regain some ground as the economy re-opens and as consumers resume their normal activities in the coming months. However, the magnitude of the revival will hinge on whether the virus can be successfully contained and the ability to restore job losses in a timely manner, which will ultimately dictate whether consumer's re-engage fully in their spending habits.

INTERNATIONAL

The global economy has reached an inflection point after the profound collapse in activity in March and April, with the worst of the global slump passing its nadir as government-mandated restrictions to contain the pandemic are lifted. Notably, forward-looking survey data for May bounced higher from historic lows as businesses braced for a resumption in economic activity, while the unprecedented policy response has also boosted expectations for the future. That being said, the surveys remain firmly in contraction terrain and well below pre-COVID levels, suggesting that the road to recovery may be slow. The good news is that the tailwind from monetary and fiscal stimulus is likely to augment the recovery as major economies fire up their engines. Indeed, newly announced fiscal spending plans in both Europe and Japan should help to embolden the global rebound later this year.

EMERGING

China activity data for April was mixed and underscores that the recovery remains fragile and uneven. While industrial output increased for the first time since the COVID outbreak and exports reaccelerated, retail sales and imports extended their declines, with faltering domestic demand revealing the level of caution with which the public has greeted the reopening. Looking ahead, the Chinese economy should continue its path to recovery. Conditions are favourable for domestic demand, while external demand should get a boost as developed economies exit lockdown-mode. However, the potential for setbacks prevails given the re-emergence of tensions between the US and China. At the National People's Congress, policymakers increasingly hinted at more stimulus to support the recovery, with monetary officials shifting their "prudent" approach to be more flexible, while fiscal targets are also leaning towards more spending, with a focus on job creation and infrastructure projects.

MAIN SCENARIO
SUBDUED RECOVERY

PROBABILITY 35%

In this mildly optimistic scenario, an existing medical solution is proven effective in dampening the pandemic over the next quarter and mitigation efforts prove successful in stemming its spread, which brings about a certain degree of confidence that we are regaining control over the propagation of the disease and its potential growth impacts. As a result, economic activity resumes during the third quarter of 2020, albeit at a subdued pace as the psychological shock to both consumers and businesses weighs on confidence and spending intensions, restraining the magnitude of the economic recovery in the coming year.

SCENARIO 2
RAPID RECOVERY

PROBABILITY 30%

In the "V-shape" recovery scenario, an existing therapeutic is discovered in the near-term and proves sufficient in gaining control over the proliferation of the coronavirus. As the outbreak recedes, sentiment improves drastically and isolationism and social distancing measures abate in accordance. In turn, economic activity resumes at a rapid pace during the third quarter, with a dramatic snapback in activity during the back half of 2020 as unleashed pent-up demand and the lagged impact of massive monetary and fiscal stimulus amplifies the rebound through the second half of 2020 and into 2021.

SCENARIO 3
PROLONGED SLOWDOWN

PROBABILITY 25%

Even if no clear medical solution is found and social distancing guidance remains, confidence prevails that a cure for COVID-19 will be made available sometime in 2021. Tentative signs that strict mitigation efforts are proving successful in containing the contagion spurs a resumption in economic activity this summer. However, the fact that the outbreak hasn't been fully conquered leaves the economy in a vulnerable position and local quarantine efforts are necessary for affected areas. The population remains in lockdown-mode and the steep contraction in the second quarter makes way for virtually no growth into 2021 as heightened levels of fear and anxiety leave consumers and businesses reluctant to spend until a vaccine is made available.

SCENARIO 4
PROTRACTED RECESSION

PROBABILITY 10%

Failure to contain the global pandemic or to find a near-term cure morphs into an extended period of global recession and a prolonged 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. 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.

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FORECASTS FOR THE NEXT 12 MONTHS

SCENARIOS	MAY 29, 2020	SUBDUED RECOVERY	RAPID RECOVERY	PROLONGED SLOWDOWN	PROTRACTED RECESSION
PROBABILITY		35%	30%	25%	10%
GDP GROWTH 2020					
Global	1.00%	-2.00%	2.00%	-3.00%	-10.00%
U.S.	0.20%	-2.00%	0.00%	-4.00%	-10.00%
GDP GROWTH 2021					
Global	1.00%	2.50%	4.50%	1.00%	-5.00%
U.S.	0.20%	2.00%	4.00%	0.00%	-5.00%
INFLATION (HEADLINE Y/Y)					
U.S.	0.30%	0.00%	1.00%	-1.00%	-2.00%
U.S. RATES					
Fed Funds	0.25%	0.25%	0.25%	0.25%	0.00%
10-Year Treasuries	0.65%	1.00%	1.40%	0.60%	0.40%
30-Year Treasuries	1.41%	1.70%	2.20%	1.25%	1.00%
PROFIT ESTIMATES (12 MONTHS FORWARD)					
S&P 500	147	140	150	105	85
MSCI EAFE	94	95	105	75	60
MSCI EM	66	55	65	45	35
P/E (FORWARD 12 MONTHS)					
S&P 500	21.6X	20.0X	21.0X	16.0X	15.0X
MSCI EAFE	18.4X	18.0X	19.0X	14.0X	13.0X
MSCI EM	14.2X	16.0X	17.0X	13.0X	12.0X
CURRENCIES					
EUR/USD	1.11	1.10	1.14	1.00	0.90
USD/JPY	107.83	104.00	115.00	100.00	90.00
GBP/USD	1.23	1.25	1.40	1.10	1.05
CAD/USD	0.73	0.72	0.75	0.65	0.62
COMMODITIES					
Oil (WTI, USD/barrel)	35.49	30.00	35.00	20.00	15.00

Discussions regarding potential future events and their impact on the markets are based solely on historical 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	SUBDUED RECOVERY	RAPID RECOVERY	PROLONGED SLOWDOWN	PROTRACTED RECESSION
PROBABILITY	35%	30%	25%	10%
US Money Market	0.3%	0.3%	0.3%	0.1%
US Bonds	-2.0%	-4.7%	0.1%	1.3%
US Equity	-8.0%	3.5%	-44.8%	-58.1%
International Equity	-0.9%	15.6%	-39.1%	-54.8%
Emerging Market Equity	-5.4%	18.8%	-37.1%	-54.9%

CURRENT STRATEGY [1]

	MINIMUM	BENCHMARK	MAXIMUM	STRATEGY	ALLOCATION	RELATIVE
CASH	**0.0%**	**5.0%**	**25.0%**	**Neutral**	**5.0%**	**0.0%**
TRADITIONAL INCOME	**5.0%**	**30.0%**	**85.0%**	**Neutral**	**30.0%**	**0.0%**
TRADITIONAL CAPITAL APPRECIATION	**15.0%**	**65.0%**	**95.0%**	**Neutral**	**65.0%**	**0.0%**
US Equity	10.0%	35.0%	60.0%	Neutral	35.0%	0.0%
International Equity	5.0%	25.0%	40.0%	Neutral	25.0%	0.0%
Emerging Market Equity	0.0%	5.0%	25.0%	Neutral	5.0%	0.0%

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.

USA

FIERA CAPITAL

CONTACT US

NORTH AMERICA

Montreal
Fiera Capital Corporation
1981 McGill College Avenue
Suite 1500
Montreal, Quebec H3A 0H5
T 1 800 361-3499

Toronto
Fiera Capital Corporation
1 Adelaide Street East
Suite 600
Toronto, Ontario M5C 2V9
T 1 800 994-9002

Calgary
Fiera Capital Corporation
607 8th Avenue SW
Suite 300
Calgary, Alberta T2P 0A7
T 403 699-9000

info@fieracapital.com
fiera.com

New York
Fiera Capital Inc.
375 Park Avenue
8th Floor
New York, New York 10152
T 212 300-1600

Boston
Fiera Capital Inc.
One Lewis Wharf
3rd Floor
Boston, Massachusetts 02109
T 857 264-4900

Dayton
Fiera Capital Inc.
10050 Innovation Drive
Suite 120
Dayton, Ohio 45342
T 937 847-9100

Los Angeles
Bel Air Investment Advisors
1999 Avenue of the Stars
Suite 3200
Los Angeles, California 90067
T 1 877 229-1500

EUROPE

London
Fiera Capital (UK) Limited
Queensberry House
3 Old Burlington Street
3rd Floor
London, United Kingdom
W1S 3AE
T +44 20 7518 2100

Frankfurt
Fiera Capital (UK) Limited
Walther-von-Cronberg-Platz 13
Frankfurt, Germany
60594
T +49 69 9202 0750

ASIA

Hong Kong
Clearwater Capital Partners
Suite 3205
No. 9 Queen's Road Central
Hong Kong
T 852-3713-4800

Singapore
Clearwater Capital Partners
6 Temasek Boulevard #38-03
Suntec Tower 4
Singapore 038986

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US Savings Rate is the percentage of people’s income left after they pay taxes and spend money.

The Expectations Index is a component of the Consumer Confidence Index® (CCI), which is published each month by the Conference Board. The CCI reflects consumers' short-term—that is, six-month—outlook for, and sentiment about, the performance of the overall economy as it affects them.

Purchasing Managers' Index (PMI) measures the activity level of purchasing managers in the manufacturing sector. 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.

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 Eurozone Manufacturing data include Germany, France, Italy, Spain and the Republic of Ireland. The US Manufacturing data includes the United States. The UK Manufacturing data includes the United Kingdom.

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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