

TACTICAL ASSET ALLOCATION COMMITTEE MONTHLY COMMENTARY

JULY 2020



FIERACAPITAL

In June, the unrelenting appetite for risk prevailed and global stock markets continued to grind higher amid optimism for a successful reopening of major economies that are awash with central bank and government support. However, it was a turbulent month, with equity markets swinging between gains and losses as investors weighed some conflicting forces at hand. While indeed welcoming ongoing signs that the worst of the economic fallout from the pandemic is behind us and the unrelenting pledges for policy support, enthusiasm was tempered somewhat on reports of rising COVID cases across the US that prompted some states to dial back their reopening plans.

FINANCIAL MARKET DASHBOARD				
	JUNE 30, 2020	JUNE	YTD	1 YEAR
EQUITY MARKETS		% PRICE CHANGE (LC)		
S&P 500	3100	1.84%	-4.04%	5.39%
S&P/TSX	15515	2.12%	-9.07%	-5.29%
MSCI EAFE	1781	3.22%	-12.59%	-7.37%
MSCI EM	995	6.96%	-10.73%	-5.67%
FIXED INCOME (%)		BASIS POINT CHANGE		
US 10 Year Bond Yield	0.66	0.4	-126.1	-134.9
US 2 Year Bond Yield	0.15	-1.2	-142.1	-160.6
US Corp BBB Spread	1.73	-29.0	48.0	26.0
US Corp High Yield Spread	6.19	-18.0	292.0	233.0
CURRENCIES		% PRICE CHANGE		
CAD/USD	0.74	1.47%	-4.31%	-3.55%
EUR/USD	1.12	1.20%	0.19%	-1.22%
USD/JPY	107.93	0.09%	-0.63%	0.07%
COMMODITIES		% PRICE CHANGE		
WTI Oil (USD/bbl)	39.27	10.65%	-35.69%	-32.84%
Copper (USD/pound)	2.71	11.87%	-2.99%	0.30%
Gold (USD/oz)	1800.50	3.66%	18.21%	27.36%

The remarkable comeback from the March lows gave way to some choppy financial conditions in June. Still, global equity markets edged higher during the month. The S&P 500 was stuck in a 250-point range and advanced by a relatively muted 1.8% in June. Looking abroad, European stocks outpaced their US peers for the first month since September as major European economies successfully contained the virus and fired up their engines ahead of the US – while plans to reopen in America have been halted in response to the latest spike in cases. Emerging markets led the global charge as unprecedented central bank stimulus overshadowed the threat of rising infections across some developing nations, with India and Brazil among the newest global hotspots for the coronavirus.

Fixed income markets posted positive results. While the short-end remained well-anchored amid ongoing commitments from central banks to keep interest rates low for an extended period of time, longer-term bonds traded in a narrow range. Improved investor sentiment and stronger-than-expected economic data failed to put any notable upward pressure on longer-term bond yields owing to the abundance of central bank support that has helped to absorb incoming supply and capped government yields. Meanwhile, corporate and high yield spreads narrowed as direct intervention by major central banks lent some notable support. Indeed, the Federal Reserve stepped-up in June and detailed plans to buy individual corporate bonds.

After an extended stretch of gains, the US dollar lost some ground in June as risk appetite flourished and dampened demand for the greenback. The euro climbed to a three-month high after the European Central Bank announced a bigger-than anticipated increase to its emergency bond buying program and as Germany ramped-up its fiscal support, while the Canadian dollar rose back to pre-lockdown levels alongside the sharp revival in crude prices.

Gold breached the \$1800-mark for the first time since 2011 as the spike in coronavirus cases in some US states prompted a flight into the safe haven, while the massive wave of central bank stimulus also boosted the non-interest bearing metal. Copper advanced on some nascent signs of a recovery in Chinese demand, while the emergence of the pandemic across top mining regions in South America fuelled fears of a major disruption to supply. Finally, oil thrived as cash-strapped producers rapidly shuttered production and as the OPEC consortium agreed to ongoing production curbs, while some hopeful signs of a recovery in global demand helped to alleviate the massive glut in the oversupplied market.

USA

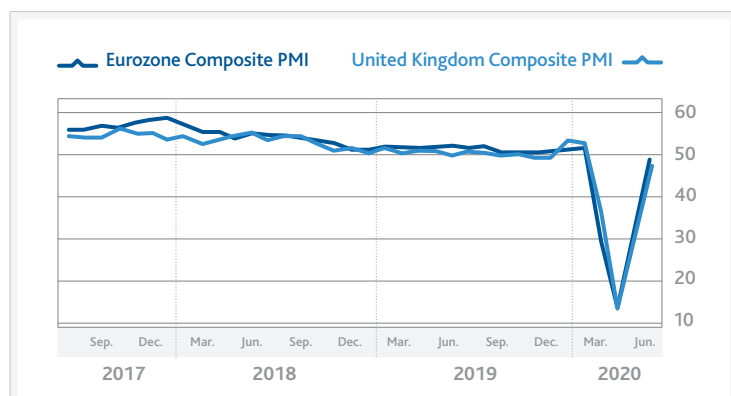
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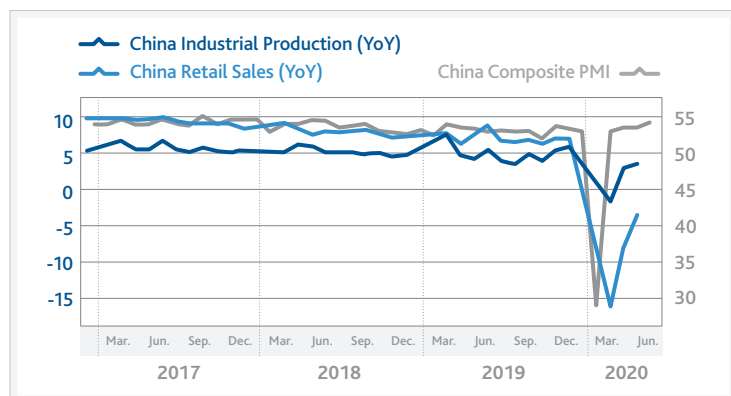
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The Citigroup economic surprise index soared to an all-time high, 7.5 million jobs have been added in the last two months, and the closely-monitored ISM factory gauge returned to expansion terrain for the first time since February – reinforcing the narrative for a robust rebound from the depths of the downturn. However, it will take some time for a full recovery to ensue in the absence of a medical solution that would allow for a swift return to pre-COVID levels.



The Purchasing Manager Indices in Europe and the UK continued their bounce off of the April lows as restrictions were relaxed and as major economies fired up their engines. Similar to the sequential improvement witnessed in China, activity across developed economies should gain further ground in the coming months as the reopening process continues, while the assertive policy response should also guide major economies out of the steep recession.



In China, the activity data for May revealed that the world's second largest economy continues to recover from the coronavirus slump, albeit at an uneven pace. Industrial activity returned to acceleration-mode, while retail sales remained sluggish. Meanwhile, the PMI surveys for June pushed further into expansionary terrain, signaling that the gradual recovery remains on track. Both the manufacturing and non-manufacturing gauges climbed higher, which sent the composite PMI to its highest level since June 2018.

USA

The US economy has rebounded convincingly from the nadir in April. The consumer was back in May as the deluge of government support measures and substantial pent-up demand saw American citizens rush to spend their windfall in saving, while close to one-third of the 22.2 million plunge in payrolls from earlier this year were recouped through May and June. Similarly, business confidence improved markedly as nationwide lockdowns were reversed and boosted factory activity. However, it remains to be seen whether the economy can maintain these gains, with millions of Americans still collecting unemployment benefits and fears of a second wave of infections threatening to restrain the magnitude of the recovery. Fortunately, the assertive policy response should help to limit the degree of damage and will likely be instrumental in guiding the economy back to health.

INTERNATIONAL

Most advanced countries have followed the “first in, first out” principle, with those implementing lockdowns first being the first to ease restrictions. Europe and the United Kingdom have managed to successfully get the virus under control and are slowly regaining some ground as widespread containment measures are lifted, while profound stimulus measures are also helping to reignite activity. Indeed, the latest economic results have revealed that the trough in the pandemic-induced disruptions occurred in April, with both business and consumer sentiment flourishing thanks to large-scale monetary and fiscal support. Specifically in Europe, there are some encouraging signs of solidarity, with both Germany and France backing the proposed European Union recovery plan, while the European Central Bank has ramped-up its Pandemic Emergency Purchase Program that's set to run for the coming year.

EMERGING

China was the first to be hit by COVID-19, the first to develop a strict lockdown strategy, the first to flatten its infection curve, and consequently, the first to reopen – which has provided a blueprint on the path forward for rest of the world. Thus far, the recovery has been uneven. While supply-side stimulus and pent-up demand have made way for a sharp acceleration in industrial activity, domestic conditions remain soft amid a clear wariness among consumers to re-engage fully in their spending habits. Meanwhile, the emerging markets (specifically Latin America) are the new hotspot for the coronavirus, accounting for 46% of global cases. With little appetite for the draconian lockdown measures that were implemented in China, the toll from the virus is beginning to take form and may usher in a major health crisis for some emerging market economies.

USA



MAIN SCENARIO

RAPID RECOVERY

PROBABILITY 45%



A therapeutic is discovered in the near-term and proves sufficient in gaining control over the proliferation of the virus. As the outbreak recedes, sentiment improves drastically and isolationism and social distancing measures abate in accordance. In response, factories and services are able to reopen for business in a smooth fashion, while government efforts to bridge the income gap stemming from the economic stop prove successful in alleviating the damage to both businesses and consumers. As a result, economic activity snaps back dramatically at a rapid pace during the third quarter as confidence is restored and pent-up demand is unleashed, while the lagged impact of massive monetary and fiscal stimulus amplifies the rebound through the second half of 2020 and into 2021. As an extended period of robust, above-trend growth ensues, newly announced stimulus measures are unlikely (and unnecessary) in this optimistic scenario.

SCENARIO 2

SUBDUED RECOVERY

PROBABILITY 30%



Stringent mitigation efforts prove successful in stemming the spread of the pandemic and flattening the global infection curve, which brings about a certain degree of confidence that we are regaining control over the propagation of the disease and its potential growth impacts. At the same time, confidence prevails that a viable medical solution to treat the coronavirus will be made available in the coming year. As a result, economic activity resumes during the third quarter of 2020 as major economies progressively restart their engines, albeit at a slower, more subdued pace. Factories and other workplaces take time to return to full capacity and not every job lost during the crisis is won back. As the virus has not yet been completely eliminated, social distancing behaviours are only partially loosened and lingering health fears prompts some reluctance from consumers and businesses to re-engage fully, which ultimately restrains the magnitude of the economic recovery in the coming year. As the economy will take longer to return to pre-COVID levels under this subdued recovery scenario, monetary and fiscal stimulus is almost certain to remain extremely accommodative and policymakers will refrain from reining in their supportive measures over the 12-18 month time horizon.

SCENARIO 3

ECONOMIC STAGNATION

PROBABILITY 25%



In this downside scenario, no clear medical solution is discovered and social distancing guidance remains. While strict mitigation efforts ultimately prove successful in containing the contagion and spurs some resumption in economic activity during the summer, the fact that the outbreak hasn't been fully conquered and the risk of a second wave of infections leaves the economy in a vulnerable position, with local quarantine efforts necessary for affected areas. Reopening plans are delayed and even reversed, the population goes back into partial lockdown-mode, and the steep contraction in the second quarter makes way for a stagnant growth environment through 2021 as heightened levels of fear and anxiety leave consumers and businesses hesitant to spend until a vaccine is made available. 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 intentions and economic activity in the coming 12-18 months. The good news, however, is that the monetary and fiscal impulse will remain firmly in place under this dire economic scenario - which inevitably helps to alleviate the economic damage and reduces the likelihood of this calamitous outcome.

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FORECASTS FOR THE NEXT 12 MONTHS

SCENARIOS	JUNE 30, 2020	RAPID RECOVERY	SUBDUED RECOVERY	ECONOMIC STAGNATION
PROBABILITY		45%	30%	25%
GDP GROWTH 2020				
Global	1.00%	1.00%	-2.50%	-3.50%
U.S.	0.30%	-1.00%	-5.50%	-6.50%
GDP GROWTH 2021				
Global	1.00%	5.00%	4.00%	1.00%
U.S.	0.30%	5.00%	4.00%	0.00%
INFLATION (HEADLINE Y/Y)				
U.S.	0.10%	2.00%	0.75%	-1.00%
U.S. RATES				
Fed Funds	0.25%	0.25%	0.25%	0.25%
10-Year Treasuries	0.66%	1.40%	1.00%	0.60%
30-Year Treasuries	1.41%	2.20%	1.70%	1.25%
PROFIT ESTIMATES (12 MONTHS FORWARD)				
S&P 500	143	165	150	105
MSCI EAFE	96	110	95	75
MSCI EM	69	70	60	45
P/E (FORWARD 12 MONTHS)				
S&P 500	21.6X	21.5X	22.0X	16.0X
MSCI EAFE	18.5X	18.0X	19.0X	14.0X
MSCI EM	14.5X	16.0X	17.0X	13.0X
CURRENCIES				
EUR/USD	1.12	1.18	1.10	1.00
USD/JPY	107.93	115.00	104.00	100.00
GBP/USD	1.24	1.40	1.25	1.10
CAD/USD	0.74	0.77	0.74	0.65
COMMODITIES				
Oil (WTI, USD/barrel)	39.27	50.00	40.00	20.00

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.

USA

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MATRIX OF EXPECTED ANNUAL RETURNS (USD)

SCENARIOS	RAPID RECOVERY	SUBDUED RECOVERY	ECONOMIC STAGNATION
PROBABILITY	45%	30%	25%
US Money Market	0.3%	0.3%	0.3%
US Bonds	-4.9%	-2.2%	-0.1%
US Equity	14.4%	6.4%	-45.8%
International Equity	11.2%	1.4%	-41.0%
Emerging Market Equity	12.6%	2.5%	-41.2%

CURRENT STRATEGY¹

	MINIMUM	BENCHMARK	MAXIMUM	STRATEGY	ALLOCATION	RELATIVE
CASH	0.0%	5.0%	25.0%	Underweight	0.0%	-5.0%
TRADITIONAL INCOME	5.0%	30.0%	85.0%	Underweight	25.0%	-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	45.0%	+10.0%
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.



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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. Citigroup Economic Surprise Index - USA is a weighted historical standard deviation of data surprises (actual releases vs Bloomberg survey median).

PMI - The Purchasing Managers' Index (PMI) is an indicator of economic health for manufacturing and service sectors. The purpose of the PMI is to provide information about current business conditions to company decision makers, analysts and purchasing managers. Each country PMI survey for the manufacturing or service sector is based on questionnaire responses from panels of senior purchasing executives (or similar) at over 400 companies. The composite PMI is a number from 0 to 100. A PMI above 50 represents an expansion when compared with the previous month. A PMI reading under 50 represents a contraction, and a reading at 50 indicates no change.