

# Fiera Capital Global Asset Allocation

MONTHLY UPDATE: FEBRUARY 2022



**Jean-Guy Desjardins**

Executive Chairman of the Board  
& Co-Lead Global Asset Allocation



**Candice Bangsund, CFA**

Vice President &  
Co-Lead Global Asset Allocation

The new year got off to a tumultuous start. Volatility gripped the marketplace and financial markets were whipsawed as investors contemplated the fallout from an increasingly hawkish Federal Reserve on the broader economic recovery and corporate earnings. Sentiment also remained fragile amid lingering geopolitical tensions stemming from Russia and the Ukraine, which added to investor unease at the beginning of the year. Both global equity and bond markets suffered losses in January, reinforcing the case for private alternatives in a well-balanced portfolio.

FINANCIAL MARKET DASHBOARD				
	JAN. 31, 2022	JAN.	YTD	1 YEAR
EQUITY MARKETS		% PRICE CHANGE (LC)		
S&P 500	4516	-5.26%	-5.26%	21.57%
S&P/TSX	21098	-0.59%	-0.59%	21.69%
MSCI EAFE	2222	-4.86%	-4.86%	4.63%
MSCI EM	1208	-1.93%	-1.93%	-9.13%
FIXED INCOME (%)		BASIS POINT CHANGE		
U.S. 10 Year Treasury Yield	1.78	26.7	26.7	71.1
U.S. 2 Year Treasury Yield	1.18	44.7	44.7	106.9
U.S. Corp BBB Spread	1.35	14.0	14.0	23.0
U.S. Corp High Yield Spread	3.50	80.0	80.0	26.0
CURRENCIES		% PRICE CHANGE		
CAD/USD	0.79	-0.54%	-0.54%	0.54%
EUR/USD	1.12	-1.19%	-1.19%	-7.42%
USD/JPY	115.11	0.03%	0.03%	9.96%
COMMODITIES		% PRICE CHANGE		
WTI Oil (USD/bbl)	88.15	17.21%	17.21%	68.87%
Copper (USD/pound)	4.32	-3.11%	-3.11%	21.61%
Gold (USD/oz)	1795.00	-1.84%	-1.84%	-2.83%

Global equity markets slid broadly lower, with the MSCI All Country World capping its worst monthly decline since March 2020. Developed markets underperformed their emerging market peers as the most expensive corners of the market assumed the brunt of the selloff. Notably, the tech-heavy Nasdaq moved into official correction terrain, while the S&P 500 led the monthly decline. Still, the equity tumult was widespread and all major benchmarks ended the month lower. With less exposure to the most heated areas of the market, the S&P/TSX was down more modestly than its global peers given solid outperformance in the heavyweight energy and financial space.

Fixed income markets also generated negative results in January. Short-term bond yields moved sharply higher after Federal Reserve officials laid the groundwork for March liftoff and as some hawkish-leaning rhetoric from Chair Powell saw investors ramp-up their wagers for rate increases, with the market now pricing close to five hikes in 2022. The two year treasury yield rose 45 basis points to 1.18%, while the ten year treasury yield rose by 27 basis points to 1.78%. Similar moves were seen in Canada after the central bank emphasized that economic slack has been absorbed, all but teeing up a rate hike in March. The two-year government bond yield rose by 32 basis points to 1.28%, while the ten-year yield rose 35 basis points to 1.77%. Consequently, both the Canadian (-3.4%) and U.S. (-2.2%) bond markets retreated in January.

The US dollar strengthened after Federal Reserve Chair Powell struck a hawkish tone at the January monetary policy gathering, with wagers for a more aggressive path to policy normalization boosting treasury yields and buttressing the greenback. The Canadian dollar slipped even in the wake of the unrelenting rise in crude prices, with broad-based strength in the US dollar ultimately capping any meaningful upside for the loonie.

Finally, the powerful rally in crude oil extended for six straight weeks and prices rose to a 7-year high as robust demand tightened global markets, while heightened geopolitical risks amid fears that Russia may invade Ukraine also contributed to oil's climb. By contrast, gold declined on the back of US dollar strength, while the profound back-up in treasury yields also weighed on non-interest bearing bullion last month.

# Economic Overview

## UNITED STATES

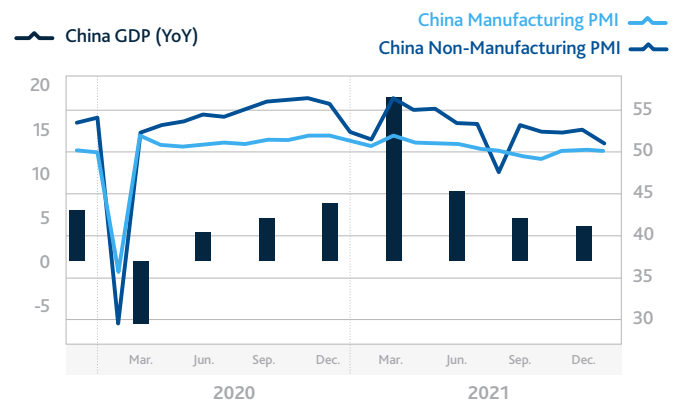
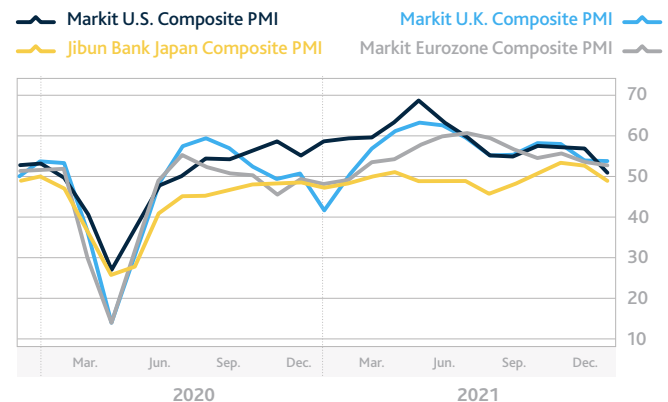
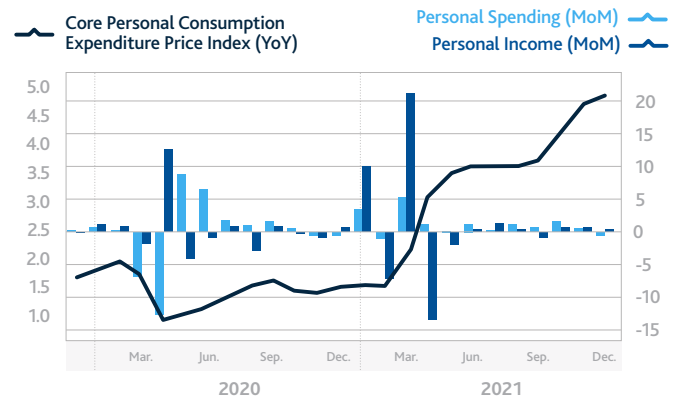
The fourth quarter GDP results revealed that consumption remains a healthy driver of the US expansion, with a 3.3% annualized increase in personal spending. That being said, American households pulled back on spending at the end of the year. Total outlays fell -0.6% m/m in December, while incomes grew 0.3% m/m driven by a solid gain in wages and salaries. While spending may be clouded by omicron in the near-term, the blow to activity is likely to be temporary and will be followed by a swift and strong rebound. Robust gains in labour income and some \$2 trillion in excess savings are likely to power consumer spending as the latest virus wave abates. Furthermore, inflation is likely to moderate over the coming 6-12 months as the pandemic ebbs and supply-side disruptions ease, prompting a rotation in demand from goods to services. Still, prices will remain above the Fed's comfort zone long enough to lead to multiple rate hikes over the course of the year.

## INTERNATIONAL

The global developed market purchasing manager indices (PMI) for January underscored that the latest wave of COVID-19 dampened economic activity early-on in the new year. The US Composite PMI declined sharply to 50.8 (from 57.0), barely above the threshold that divides expansion from contraction. Meanwhile, the Composite indices for the Eurozone and the UK moderated but remained in expansion at 52.4 and 53.4, respectively – while the Japanese Composite PMI fell into contraction (at 48.8 from 52.5). The underlying details highlighted the negative effects of the pandemic on activity, with the high-touch services space assuming the bulk of the deterioration as the spread of the omicron variant prompted governments to reinstate restrictions, while factory gauges held fairly firm. Given that the deterioration is largely pandemic-driven, it is likely to prove short-lived and economic conditions are expected to improve as the pandemic fades and activity snaps back in the coming months. Notably, most forward-looking expectations gauges have improved, which implies that businesses view current weakness as temporary.

## EMERGING

China's economy slowed in the fourth quarter, with GDP growth easing to 4.0% y/y from 4.9% y/y in the third quarter. Activity data for December was mixed. Both fixed asset investment (+4.9% y/y) and industrial production (+4.3% y/y) came in stronger than expected, while retail sales (+1.7% y/y) decelerated sharply, highlighting the blow to consumer spending from the winter virus outbreak as "Zero-Covid policy" remains. The forward-looking purchasing manager indices also revealed a loss of momentum at the beginning of the year. The manufacturing PMI slipped to 50.1 in January, while the non-manufacturing PMI pulled-back to 51.1. Meanwhile, both consumer and producer prices cooled in December, providing policymakers the leeway to ease policy. Indeed, while inflation is the dominant concern for central banks in the US and Europe, China's relatively stable prices have allowed policymakers to shift their focus to reviving an economy that's been plagued by a property slump and repeated virus outbreaks.



# Economic Scenarios



## Main Scenario | Reflation

Probability **50%**

Our base case scenario calls for the global economy to grow at an above-trend pace through 2022, without the fear of an aggressive and destabilizing monetary policy tightening event. The global economic recovery lingers-on, even in the wake of sporadic virus outbreaks. While COVID dynamics weigh on activity in the near-term, the recovery ultimately resumes as the latest virus wave subsides, activity continues to normalize, and pent-up savings are unleashed. Meanwhile, both cyclical and secular forces keep inflation elevated, which prompts central banks to dial-back on their emergency-era support. However, despite inflation pressures proving more persistent than initially thought, inflation expectations remain generally well-anchored, which allows policymakers to proceed cautiously and pragmatically in normalizing monetary policy. Central bank asset purchases are scaled-down through 2022, and both the Federal Reserve and Bank of Canada begin the gradual rate normalization process given that their respective economies will be operating at or near full potential and output gaps will soon be closed. By contrast, central banks in Europe, Japan, and China decouple from this policy trajectory and maintain an extremely stimulative monetary policy stance over the coming year. Still, the North American policy transition from extremely stimulative towards a neutral stance occurs progressively over several years, extending the longevity and visibility of the economic cycle.

## Scenario 2 | Stagflation

Probability **40%**

A growing risk to our base case scenario is that the world economy turns stagflationary in nature, a toxic combination of slowing global growth and accelerating prices. The “Stagflation” scenario assumes that inflationary pressures prove much stickier than previously assumed and de-anchors inflation expectations, with global economic prospects subsiding amid the fallout as a more aggressive tightening trajectory to combat runaway prices ends the cycle prematurely. Specifically, the near-term spike in pricing pressures proves more enduring than expected, and lasts long enough to become embedded in inflation expectations and ultimately triggers a wage-price spiral. Supply-chain dislocations take longer to correct, while shortages and subdued participation in the labour force become more long-lasting given lingering health-related fears of returning to work, the structural shift in demographics (ageing populations), or skills mismatches in the post-pandemic reality. The subsequent rise in input costs and the rapid buildup in wages cuts into the profitability of corporations and consumers struggle to maintain their purchasing power. In response, policymakers abandon their perceived tolerance for higher inflation and act aggressively to stem the inflationary spiral. This assertive and hawkish-leaning policy adjustment sparks a deceleration in global growth to below-potential levels. The stagnation in global growth occurs concurrently with an acceleration in inflation and tighter monetary policy, creating a tumultuous financial market landscape whereby both equities and bonds experience declines amid a marked deterioration in the macroeconomic landscape.

## Scenario 3 | Recession

Probability **10%**

Another wildcard continues to be the emergence of highly-transmissible COVID-19 variants that risk derailing the global economic recovery. In this scenario, the pandemic proves more severe and persistent than anticipated given the predominance of variants in future contagion. The risk is that more variants emerge given that a substantial part of the world population remains unvaccinated and amid uncertainty about the effectiveness of existing vaccines in fighting these new variants. At the same time, vaccine hesitancy in some parts of the world creates a hurdle to reaching herd immunity and fully eradicating COVID-19. As it takes longer to gain control over the propagation of the virus, confinement and mitigation efforts from governments are reinstated and social distancing behaviours linger-on, while health fears prompt some reluctance from consumers and businesses to re-engage fully - which ultimately delays the return to normal and fuels a steep contraction in growth.

# Forecasts for the Next 12-18 Months



SCENARIOS	JANUARY 31, 2022	REFLATION	STAGFLATION	RECESSION
PROBABILITY		50%	40%	10%
GDP GROWTH 2022				
Global	4.30%	5.00%	3.50%	-4.50%
Canada	3.80%	4.50%	1.50%	-5.00%
U.S.	3.80%	4.25%	1.50%	-3.50%
GDP GROWTH 2023				
Global	3.60%	3.50%	2.50%	1.00%
Canada	3.10%	1.50%	1.00%	-1.00%
U.S.	2.50%	2.00%	1.00%	-1.00%
INFLATION (HEADLINE Y/Y)				
Canada	4.80%	3.50%	4.50%	0.50%
U.S.	7.00%	3.50%	4.50%	0.50%
SHORT-TERM RATES				
Bank of Canada	0.25%	1.00%	1.75%	0.25%
Federal Reserve	0.25%	1.00%	1.75%	0.25%
10-YEAR RATES				
Canada Government	1.77%	3.00%	3.50%	0.50%
U.S. Government	1.78%	3.00%	3.50%	0.50%
PROFIT ESTIMATES (12 MONTHS FORWARD)				
Canada	1380	1350	1150	850
U.S.	225	220	205	150
EAFE	156	155	145	90
EM	98	100	90	55
P/E (FORWARD 12 MONTHS)				
Canada	15.3X	17.0X	16.0X	15.0X
U.S.	20.1X	20.0X	19.0X	16.0X
EAFE	14.3X	15.0X	14.5X	14.0X
EM	12.3X	13.5X	12.5X	12.0X
CURRENCIES				
CAD/USD	0.79	0.87	0.85	0.65
EUR/USD	1.12	1.25	1.15	1
USD/JPY	115.11	100	105	110
COMMODITIES				
Oil (WTI, USD/barrel)	88.15	90	75	35
Gold (USD/oz)	1795	1800	1900	2100

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.

# Portfolio Strategy



## Matrix of Expected Returns

SCENARIOS	REFLATION	STAGFLATION	RECESSION
PROBABILITY	50%	40%	10%
TRADITIONAL INCOME			
Money Market	0.6%	1.0%	0.3%
Canadian Bonds	-4.4%	-6.7%	9.4%
NON-TRADITIONAL INCOME			
Diversified Credit	8.0%	7.0%	5.0%
Diversified Real Estate	8.0%	7.0%	4.0%
Infrastructure	7.5%	6.5%	5.0%
Agriculture	8.5%	7.5%	6.0%
TRADITIONAL CAPITAL APPRECIATION			
Canadian Equity Large Cap	8.8%	-12.8%	-39.6%
U.S. Equity Large Cap	-11.9%	-20.1%	-35.7%
International Equity	-5.4%	-12.4%	-31.4%
Emerging Market Equity	-1.1%	-13.8%	-33.9%
NON-TRADITIONAL CAPITAL APPRECIATION			
Private Equity	15.0%	12.0%	5.0%
Liquid Alternatives	7.0%	5.0%	0.0%

## Current Strategy<sup>1</sup>

### TRADITIONAL AND NON-TRADITIONAL PORTFOLIOS

	MINIMUM	BENCHMARK	MAXIMUM	STRATEGY	+/-
Money Market	0%	5%	25%	10%	+5%
Canadian Bonds	5%	25%	45%	5%	-20%
Canadian Equity Large Cap	10%	20%	40%	35%	+15%
U.S. Equity Large Cap	0%	10%	20%	0%	-10%
International Equity	0%	10%	20%	5%	-5%
Emerging Market Equity	0%	5%	15%	5%	0%
Non-Traditional Income	5%	25%	45%	40%	+15%

### TRADITIONAL PORTFOLIOS

	MINIMUM	BENCHMARK	MAXIMUM	STRATEGY	+/-
TRADITIONAL INCOME	20%	40%	60%	40%	0%
Money Market	0%	5%	25%	10%	+5%
Canadian Bonds	5%	35%	55%	30%	-5%
TRADITIONAL CAPITAL APPRECIATION	40%	60%	80%	60%	0%
Canadian Equity Large Cap	5%	25%	50%	40%	+15%
U.S. Equity Large Cap	0%	15%	30%	5%	-10%
International Equity	0%	15%	30%	10%	-5%
Emerging Market Equity	0%	5%	15%	5%	0%

## Evolution of Value-Added<sup>1</sup>



<sup>1</sup> 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.

## Evolution of Strategy

	Money Market	Canadian Bonds	Canadian Equity	U.S. Equity	International Equity	Emerging Market Equity	Non-traditional Income
January 1, 2006	+20%	-16%	-8%	+6%	-2%		
February 17, 2006	+16%	-10%	-10%	+6%	-2%		
April 4, 2006	+10%	-10%	0%	0%	0%		
May 9, 2006	+4%	-10%	+2%	+2%	+2%		
June 21, 2006	0%	-10%	+2%	+2%	+6%		
July 19, 2006	-10%	0%	+2%	+2%	+6%		
December 6, 2006	0%	-10%	+2%	+2%	+6%		
January 1, 2007	+5%	-10%	0%	+2%	+3%		
February 22, 2007	-5%	0%	0%	+2%	+3%		
March 9, 2007	0%	0%	-3%	0%	+3%		
June 29, 2007	0%	0%	-6%	-4%	+10%		
September 29, 2007	+6%	0%	-6%	-4%	+4%		
January 10, 2008	+12%	0%	-6%	-4%	-2%		
March 1, 2008	+16%	0%	-6%	-4%	-6%		
September 20, 2008	+8%	0%	-3%	-2%	-3%		
March 9, 2009	+8%	-8%	0%	0%	0%		
June 8, 2009	+8%	+2%	-4%	-3%	-3%		
December 9, 2009	+15%	-5%	-4%	-3%	-3%		
May 6, 2010	+15%	-15%	0%	0%	0%		
December 13, 2010	+10%	-15%	5%	0%	0%		
April 7, 2011	+10%	-10%	0%	0%	0%		
July 4, 2011	+10%	-15%	+5%	0%	0%		
August 10, 2011	+5%	-15%	+5%	+5%	0%		
October 5, 2011	+7%	-15%	+8%	0%	0%		
October 12, 2011	+6%	-10%	+4%	0%	0%		
November 11, 2011	+5%	0%	0%	0%	-5%		
December 7, 2011	0%	0%	+5%	0%	-5%		
April 20, 2012	+15%	-20%	+10%	0%	-5%		
July 31, 2012	+20%	-15%	0%	0%	-5%		
November 9, 2012	+10%	-15%	+10%	0%	-5%		
February 19, 2013	+5%	-15%	+10%	0%	0%		
August 6, 2013	0%	-15%	+10%	+5%	0%		
December 3, 2013	+10%	-15%	+5%	0%	0%		
February 5, 2014	0%	-15%	+10%	+10%	-5%		
October 14, 2014	0%	-20%	+5%	+10%	+5%		
November 14, 2014	+10%	-20%	+2.5%	+2.5%	+5%		
July 13, 2015	0%	-20%	+7%	+4%	+9%		
October 19, 2015	0%	-20%	+11%	0%	+9%		
June 24, 2016	+9%	-20%	+11%	0%	0%		
July 12, 2016	0%	-20%	+15%	0%	0%	+5%	
July 27, 2016	+5%	-20%	+12.5%	0%	0%	+2.5%	
October 31, 2016	0%	-20%	+12.5%	0%	0%	+7.5%	
April 5, 2017	+5%	-15%	+7.5%	0%	-5%	+7.5%	
December 6, 2017	+15%	-15%	+5%	-5%	-5%	+5%	
October 9, 2018	+15%	-15%	+5%	-10%	-5%	+10%	
November 9, 2018	0%	-20%	+5%	-10%	-5%	+10%	+20%
December 17, 2018	-5%	-20%	+5%	-5%	-5%	+10%	+20%
July 12, 2019	-5%	-20%	+5%	0%	-5%	+10%	+15%
March 24, 2020	0%	-15%	0%	0%	0%	0%	+15%
July 8, 2020	-5%	-20%	+10%	0%	0%	0%	+15%
March 11, 2021	-5%	-20%	+15%	-5%	0%	0%	+15%
August 2, 2021	+5%	-20%	+15%	-10%	-5%	0%	+15%

# Contact Us

North America			
<b>MONTREAL</b> <b>Fiera Capital Corporation</b> 1981 McGill College Avenue Suite 1500 Montreal, Quebec H3A 0H5 <b>T 1 800 361-3499</b>	<b>TORONTO</b> <b>Fiera Capital Corporation</b> 200 Bay Street, Suite 3800, South Tower Toronto, Ontario M5J 2J1 <b>T 1 800 994-9002</b>	<b>CALGARY</b> <b>Fiera Capital Corporation</b> 607 8th Avenue SW Suite 300 Calgary, Alberta T2P 0A7 <b>T 403 699-9000</b>	<b>info@fieracapital.com</b>  <b>fiera.com</b>
<b>NEW YORK</b> <b>Fiera Capital Inc.</b> 375 Park Avenue 8th Floor New York, New York 10152 <b>T 212 300-1600</b>	<b>BOSTON</b> <b>Fiera Capital Inc.</b> One Lewis Wharf 3rd Floor Boston, Massachusetts 02110 <b>T 857 264-4900</b>	<b>DAYTON</b> <b>Fiera Capital Inc.</b> 10050 Innovation Drive Suite 120 Dayton, Ohio 45342 <b>T 937 847-9100</b>	
Europe		Asia	
<b>LONDON</b> <b>Fiera Capital (UK) Limited</b> Queensberry House, 3 Old Burlington Street, 3rd Floor, London, United Kingdom W1S 3AE <b>T +44 (0) 207 409 5500</b>	<b>FRANKFURT</b> <b>Fiera Capital (Germany) GmbH</b> Walther-von-Cronberg-Platz 13 Frankfurt, Germany 60594 <b>T +49 69 9202 0750</b>	<b>HONG KONG</b> <b>Fiera Capital (Asia) Hong Kong Limited</b> Suite 3205, No. 9 Queen's Road Central, Hong Kong <b>T 852-3713-4800</b>	<b>SINGAPORE</b> <b>Fiera Capital (Asia) Singapore Pte. Ltd.</b> 6 Temasek Boulevard #38-03 Suntec Tower 4 Singapore 038986

## IMPORTANT DISCLOSURES

Fiera Capital Corporation is a global asset management firm with affiliates in various jurisdictions (collectively, "Fiera Capital"). The information and opinions expressed herein relate to Fiera Capital's investment advisory services and investment funds and are provided for informational purposes only. It is subject to change and should not be relied upon as the basis of any investment or disposition decisions. While not exhaustive in nature, these Important Disclosures provide important information about Fiera Capital and its services and are intended to be read and understood in association with all materials available on Fiera Capital's websites.

Past performance is no guarantee of future results. All investments pose the risk of loss and there is no guarantee that any of the benefits expressed herein will be achieved or realized. Valuations and returns are computed and stated in Canadian dollars, unless otherwise noted. The information provided herein does not constitute investment advice and should not be relied on as such. It should not be considered a solicitation to buy or an offer to sell any security or other financial instrument. It does not take into account any investor's particular investment objectives, strategies, tax status or investment horizon. There is no representation or warranty as to the current accuracy of, or responsibility for, decisions based on such information. Any opinions expressed herein reflect a judgment at the date of publication and are subject to change. Although statements of fact and data contained in this presentation have been obtained from, and are based upon, sources that Fiera Capital believes to be reliable, we do not guarantee their accuracy, and any such information may be incomplete or condensed. No liability will be accepted for any direct, indirect, incidental or consequential loss or damage of any kind arising out of the use of all or any of this material.

Certain information contained in this material constitutes "forward-looking statements," which can be identified by the use of forward-looking terminology such as "may," "will," "should," "expect," "anticipate," "project," "estimate," "intend," "continue," or "believe" or the negatives thereof or other variations thereon or comparable terminology. Due to various risks and uncertainties, actual events or results, including actual performance, may differ materially from those reflected or contemplated in such forward-looking statements.

Views expressed regarding a particular company, security, industry or market sector should not be considered an indication of trading intent with respect to any funds or accounts managed by any Fiera Capital entity.

Each Fiera Capital entity provides investment advisory services or offers investment funds only in those jurisdictions where such entity and/or the relevant product is registered or authorized to provide such services pursuant to an applicable exemption from such registration. Thus, certain products, services, and information related thereto provided in the materials may not be available to residents of certain jurisdictions. Please consult the specific disclosures relating to the products or services in question for further information regarding the legal requirements (including any offering restrictions) applicable to your jurisdiction. For details on the particular registration of, or exemptions therefrom relied upon by, any Fiera Capital entity, please consult this [webpage](#).