Fiera Capital Global Asset Allocation

MONTHLY UPDATE: JULY 2022

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The first half of 2022 wrapped up on a calamitous note, as mounting fears of recession stemming from central banks' efforts to tackle decades-high inflation reverberated throughout financial markets. Both equity and fixed income markets have seen some notable weakness this year, leaving little place to hide as macroeconomic risks intensified.

FINANCIAL MARKET DASHBOARD

	JUNE 30, 2022	JUNE	YTD	1 YEAR
EQUITY MARKETS		**% PRICE CHANGE (LC)**		
S&P 500	3785	-8.39%	-20.58%	-11.92%
S&P/TSX	18861	-9.01%	-11.13%	-6.47%
MSCI EAFE	1846	-9.40%	-20.97%	-19.90%
MSCI EM	1001	-7.15%	-18.78%	-27.20%
FIXED INCOME (%)		**BASIS POINT CHANGE**		
U.S. 10 Year Treasury Yield	3.01	16.9	150.3	154.5
U.S. 2 Year Treasury Yield	2.95	39.7	222.1	270.5
U.S. Corp BBB Spread	2.13	31.0	92.0	109.0
U.S. Corp High Yield Spread	5.91	168.0	321.0	363.0
CURRENCIES		**% PRICE CHANGE**		
CAD/USD	0.78	-1.75%	-1.82%	-3.69%
EUR/USD	1.05	-2.33%	-7.79%	-11.59%
USD/JPY	135.72	5.48%	17.94%	22.15%
COMMODITIES		**% PRICE CHANGE**		
WTI Oil (USD/bbl)	105.76	-7.77%	40.62%	43.95%
Copper (USD/pound)	3.71	-13.54%	-16.78%	-13.55%
Gold (USD/oz)	1807.30	-1.92%	-1.16%	2.02%

Global equity markets saw a sharp pullback in June, with investor focus pivoting away from persistently elevated inflation and towards the deteriorating outlook for both the global economy and corporate earnings. The MSCI All Country World fell 9%, with steep losses recorded across all regional benchmarks. For 2022, the global benchmark is down 21% as asset prices fell victim to rapidly tightening monetary policy.

Fixed Income markets also generated negative results in June as global central banks signaled the need for more aggressive tightening to tame rampant cost pressures. Yield curves bear-flattened, with short-term interest rates rising by more than their longer-dated peers on speculation that policymakers may not be able to stave off a hard landing. The Federal Reserve is moving "expeditiously" to combat the hottest inflation in 40 years and raised interest rates by 75 basis points last month, while Chair Powell openly endorsed raising rates well into restrictive terrain – a strategy that has often resulted in an economic downturn. The Bank of Canada also continues to push forward on its expedited path to higher rates in order to prevent inflation from becoming embedded in expectations. With the economy moving into excess demand and inflation expectations building, the Bank of Canada has promised to deliver "forceful" action, including the possibility of an outsized 75 basis point move in July.

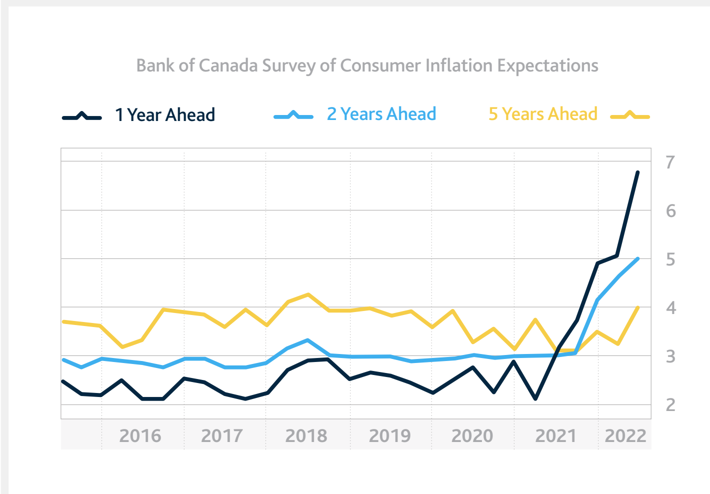
The U.S. dollar extended its unrelenting advance alongside the sharp rise in treasury yields and safe haven flows that have buttressed the greenback. By contrast, the yen has been on a steady decline, with the Bank of Japan the only major central bank that is pushing back against the global tightening campaign – while the Canadian dollar stumbled alongside the monthly slide in oil prices and a generally buoyant U.S. dollar.

In commodity markets, oil posted its first monthly decline since November as escalating fears over an economic slowdown overshadowed rapidly tightening energy markets. Gold declined for a third straight month as investors weighed the prospect for sharp rate hikes that will ultimately dampen the allure of the non-interest bearing metal, while copper tumbled to a 17-month low on growing fears about a global economic slowdown that has dampened the outlook for industrial metals demand.

Economic Overview

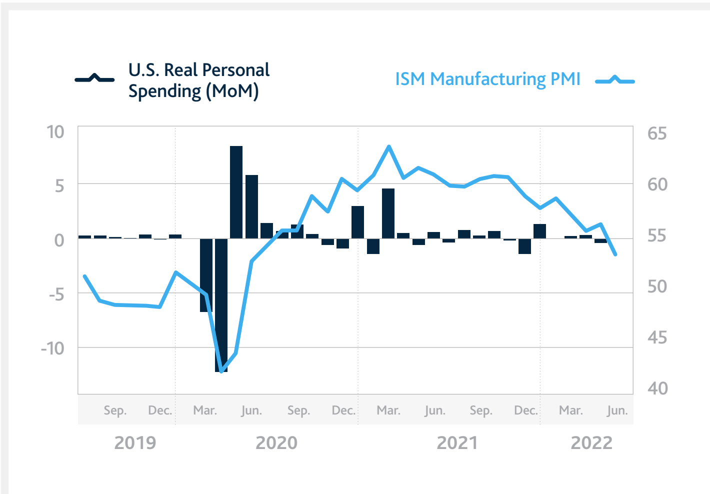
CANADA

While the Canadian economy held up reasonably well at the beginning of 2022, stubbornly elevated inflation and the prospect for sharply higher interest rates are set to take their toll on domestic demand. Fortunately, Canada's domination in resource production will create a layer of buffer as the wider economy slows. The Canadian economy expanded by 0.3% m/m in April, boosted by mining, oil, and gas extraction. And while the estimate for May is calling for a 0.2% decline, gross domestic product should still be up solidly in the second quarter. With the economy in excess demand territory and long-term inflation expectations building, aggressive action by the Bank of Canada is needed to wrestle inflation back down. Further solidifying this view was the Bank of Canada Survey of Consumer Expectations (CSCE), which revealed that consumers' inflation expectations rose notably across all time horizons in the second quarter, underscoring the case for an outsized 75 basis point rate hike at the July policy gathering.



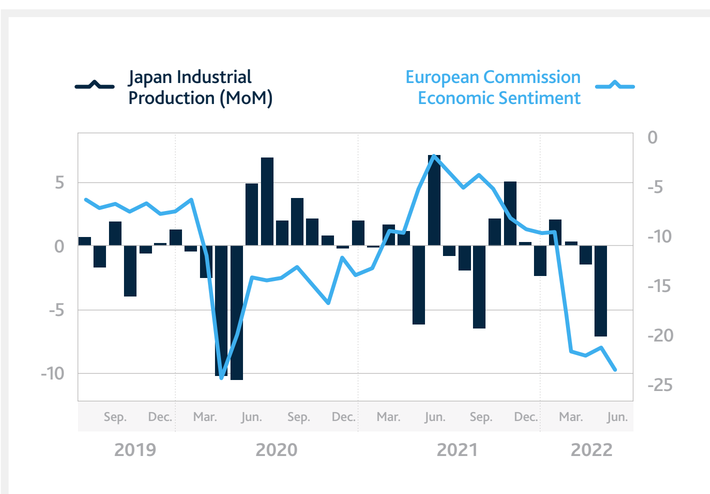
UNITED STATES

In the U.S., recent economic data revealed that consumers have been scaling back on their purchases after enduring an unrelenting climb in inflation over the past year that has squeezed household budgets. Consumer spending fell for the first time this year in May and prior months were revised lower, suggesting that the economy is on somewhat weaker footing than had hoped. Meanwhile, the closely-monitored ISM gauge of manufacturing activity weakened to a two-year low in June as new orders contracted on the back of lingering supply constraints and some softening in demand. The latest data has prompted economists to mark down their estimates for the economy, with some warning for the possibility that gross domestic product may register a second straight contraction in the second quarter. Indeed, the Federal Reserve Bank of Atlanta lowered its tracking estimate of GDP for the second quarter to a contraction of 2.1% following the softer readings on both consumer spending and factory activity.



INTERNATIONAL

Looking abroad, the European economy is facing a crippling combination of spiraling consumer prices and weakening economic activity. The Russia-Ukraine conflict has sent energy prices soaring and threatens to restrain consumer spending, while factories are facing supply chain interruptions, rising input costs, and ebbing demand from China. Moreover, the European Central Bank is gearing up to raise rates for the first time in more than a decade, adding another headwind to an already-brittle economy. In Japan, industrial output shrank in May at the fastest pace since the height of the pandemic as China's virus lockdowns disrupted supply chains and restrained activity, brining into question the ability of the factory sector to power the economy at the same time that inflation is hitting households. Finally, the Chinese recovery remains under the shadow of the "dynamic-zero-COVID" policy, which implies that rolling restrictions will weigh on domestic activity – while global demand for Chinese goods is expected to cool and diminish trade's ability to act as a growth driver.



Economic Scenarios

Main Scenario | Deep Recession

Probability **50%**

In our high probability scenario, stubbornly elevated inflation that shows little sign of abating triggers an overly-aggressive monetary tightening event that sparks a recession. The depth and duration of the recession hinges on how persistent inflation proves to be, and on how much pain policymakers are willing to inflict on the economy in order to bring inflation down to levels deemed acceptable. In this calamitous scenario, central banks look to restore their inflation-control credibility after waiting too long to address mounting price pressures and tighten monetary policy too far, too fast – regardless of the economic fallout. The Federal Reserve has prioritized tackling inflation at all costs, and will not come to the rescue of the economy should inflation expectations spiral higher. As such, policymakers are unlikely to pause the rate hike cycle until they see convincing evidence that inflation is coming down, which ultimately means that the Federal Reserve will be hiking interest rates well into economic weakness, making way for a "Deep Recession."

Scenario 2 | Shallow Recession

Probability **30%**

In this less severe recessionary scenario, inflation expectations de-anchor to the upside and force central banks to raise rates at an expeditious pace, which inadvertently pushes the economy into a recession as policymakers act in order to dampen demand for goods, services, and labor. However, interest rates peak at a lower rate versus the "Deep Recession" scenario – while the economic fallout is less damaging in the "Shallow Recession" scenario given the relatively robust underlying economic fundamentals heading into the downturn. Critically, financial imbalances that exacerbated past recessions are now absent, while consumers, banks, and the housing market are all better positioned to weather economic turbulence than they were ahead of the Global Financial Crisis of 2007-2009.

Scenario 3 | Stagflation

Probability **20%**

While central banks ramp-up their plans to normalize monetary policy in response to decades-high inflation, interest rates fail to breach "restrictive" terrain that would typically spark an outright contraction. Still, the global economy slows to below-potential levels. The speed at which inflation moderates will determine whether the Federal Reserve can temper its hawkishness and in turn avert recession. This scenario assumes that supply-demand imbalances resolve themselves faster than expected and inflation peaks in the near-term as the rotation in demand from goods towards services curtails pricing pressures, while a recovery in labor force participation and an influx of low-skilled labor constrains wage gains. This paves the way for the Federal Reserve to pause its tightening campaign and ultimately allows the U.S. economy to escape recession.

Forecasts for the Next 12-18 Months

SCENARIOS	JUNE 30, 2022	DEEP RECESSION	SHALLOW RECESSION	STAGFLATION
PROBABILITY		50%	30%	20%
GDP GROWTH				
Global	3.20%	1.50%	2.00%	2.50%
Canada	2.40%	-1.00%	-0.50%	1.50%
U.S.	1.90%	-2.00%	-1.00%	1.00%
INFLATION (HEADLINE Y/Y)				
Canada	7.70%	8.00%	6.00%	4.00%
U.S.	8.60%	9.00%	7.00%	5.00%
SHORT-TERM RATES				
Bank of Canada	1.50%	6.00%	4.25%	3.25%
Federal Reserve	1.75%	6.00%	4.25%	3.25%
10-YEAR RATES				
Canada Government	3.22%	5.00%	4.00%	3.50%
U.S. Government	3.01%	5.00%	4.00%	3.50%
PROFIT ESTIMATES (12 MONTHS FORWARD)				
Canada	1586	1300	1400	1575
U.S.	238	175	225	240
EAFE	154	100	130	155
EM	88	65	75	90
P/E (12 MONTHS FORWARD)				
Canada	11.9X	12.0X	14.0X	14.5X
U.S.	15.9X	16.5X	17.5X	18.5X
EAFE	12.0X	12.0X	14.0X	14.5X
EM	11.3X	11.0X	13.0X	14.0X
CURRENCIES				
CAD/USD	0.78	0.75	0.80	0.85
EUR/USD	1.05	1.00	1.10	1.15
USD/JPY	135.72	135.00	125.00	115.00
COMMODITIES				
Oil (WTI, USD/barrel)	105.76	90.00	110.00	130.00
Gold (USD/oz)	1807.30	2100.00	1900.00	1800.00

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.

Portfolio Strategy

Matrix of Expected Returns (CAD)

SCENARIOS	DEEP RECESSION	SHALLOW RECESSION	STAGFLATION
PROBABILITY	**50%**	**30%**	**20%**
TRADITIONAL INCOME			
Money Market	3.8%	2.9%	2.4%
Canadian Bonds	-10.3%	-3.7%	0.0%
NON-TRADITIONAL INCOME			
Diversified Credit	5.0%	6.0%	7.0%
Diversified Real Estate	5.0%	6.0%	7.0%
Infrastructure	5.0%	6.0%	7.0%
Agriculture	5.0%	6.0%	7.0%
TRADITIONAL CAPITAL APPRECIATION			
Canadian Equity Large Cap	-17.3%	3.9%	21.1%
U.S. Equity	-21.0%	1.0%	7.2%
International Equity	-32.7%	-4.3%	11.2%
Emerging Market Equity	-26.0%	-5.4%	15.1%
NON-TRADITIONAL CAPITAL APPRECIATION			
Private Equity	5.0%	7.5%	12.0%
Liquid Alternatives	0.0%	2.5%	5.0%
CAD/USD	0.75	0.80	0.85

Current Strategy[1]

TRADITIONAL AND NON-TRADITIONAL PORTFOLIOS

	MINIMUM	BENCHMARK	MAXIMUM	STRATEGY	+/-
Money Market	0%	5%	25%	20%	+15%
Canadian Bonds	5%	25%	45%	5%	-20%
Canadian Equity Large Cap	10%	20%	40%	27%	+7%
U.S. Equity	0%	10%	20%	0%	-10%
International Equity	0%	10%	20%	3%	-7%
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%**	**50%**	**+10%**
Money Market	0%	5%	25%	20%	+15%
Canadian Bonds	5%	35%	55%	30%	-5%
TRADITIONAL CAPITAL APPRECIATION	**40%**	**60%**	**80%**	**50%**	**-10%**
Canadian Equity Large Cap	5%	25%	50%	32%	+7%
U.S. Equity	0%	15%	30%	5%	-10%
International Equity	0%	15%	30%	8%	-7%
Emerging Market Equity	0%	5%	15%	5%	0%

Evolution of Value-Added[1]

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.

Evolution of Strategy

	Money Market	Canadian Bonds	Canadian Equity	U.S. Equity	International Equity	Emerging Market Equity	Non-traditioal 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%
July 11, 2022	+15%	-20%	+7%	-10%	-7%	0%	+15%

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