Fiera Capital Global Asset Allocation

MONTHLY UPDATE: AUGUST 2022

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The mood in the market improved in July amid speculation that a slowing global economy will prompt central banks to pivot their focus and cool the scale of rate hikes to tame decades-high inflation, which sparked a rally in both stocks and bonds. Investors also cheered some better-than-feared U.S. earnings results that helped to dispel some of the worst recession fears and provided some reprieve for equity investors last month.

FINANCIAL MARKET DASHBOARD

	JULY 29, 2022	JULY	YTD	1 YEAR
EQUITY MARKETS		% PRICE CHANGE (LC)		
S&P 500	4130	9.11%	-13.34%	-6.03%
S&P/TSX	19693	4.41%	-7.21%	-2.93%
MSCI EAFE	1937	4.93%	-17.07%	-16.54%
MSCI EM	994	-0.69%	-19.34%	-22.23%
FIXED INCOME (%)		BASIS POINT CHANGE		
U.S. 10 Year Treasury Yield	2.65	-36.4	113.9	142.6
U.S. 2 Year Treasury Yield	2.88	-6.9	215.2	270.1
U.S. Corp BBB Spread	2.03	-10.0	82.0	95.0
U.S. Corp High Yield Spread	5.08	-83.0	238.0	242.0
CURRENCIES		% PRICE CHANGE		
CAD/USD	0.78	0.61%	-1.23%	-2.54%
EUR/USD	1.02	-2.52%	-10.11%	-13.90%
USD/JPY	133.27	-1.81%	15.81%	21.46%
COMMODITIES		% PRICE CHANGE		
WTI Oil (USD/bbl)	98.62	-6.75%	31.13%	33.36%
Copper (USD/pound)	3.57	-3.80%	-19.94%	-20.28%
Gold (USD/oz)	1762.90	-2.46%	-3.59%	-2.74%

Global equity markets generated positive results in July as the environment of declining bond yields provided a tailwind for stocks. The MSCI All Country World advanced +6.9%, with developed markets (+7.9%) leading the charge and outperforming their emerging market peers (-0.7%). Regionally speaking, the S&P 500 gained +9.1%, while the S&P/TSX also generated positive performance (+4.4%) but underperformed its developed market peers given the monthly retreat in commodity prices. Looking abroad, international developed stocks gained +4.9%, while the emerging market benchmark bucked the global trend and declined for the month, owing mainly to a sharp decline in Chinese equities.

Fixed income markets also generated positive results as signs of softer economic activity spurred traders to rein-in their wagers for aggressive central bank tightening. The closely-monitored 10-2 year yield curve inverted, highlighting the growing fear among market participants that a recession may be on the horizon. The U.S. 10 year treasury yield fell by 36 basis points to 2.65% (a three-month low) and the 2 year treasury yield fell by 7 basis points to 2.88%. Similarly in Canada, the 10 year government bond yield fell by 61 basis points to 2.61%, while the 2 year yield fell by 13 basis points to 2.96. For the month, the Barclays US Aggregate bond index rose 2.4%, while the FTSE Canada Bond Universe gained 3.9%.

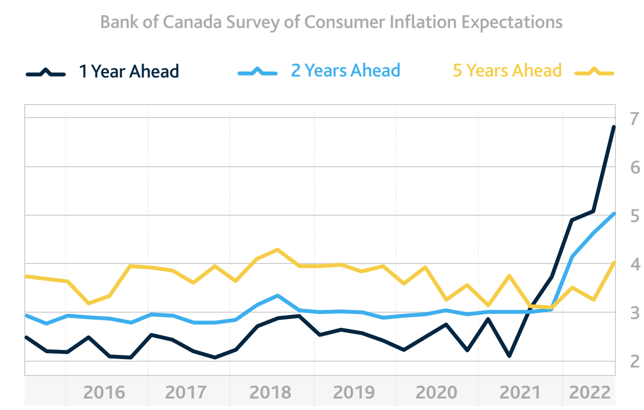
The US dollar strengthened in July, with the DXY index hitting a 20-year high. Gains in the US dollar were mainly visible against the euro, with the euro's decline perpetuated by a weak European economy, unfavorable interest rate differentials as the European Central Bank lags the Federal Reserve in its tightening campaign, and Europe's energy crisis.

In commodity markets, oil saw another volatile month marked by escalating concerns over a looming economic slowdown, with lingering growth fears largely overshadowing a squeeze of the physical oil market, in part due to upended trade flows from Russia. Gold also retreated. While high inflation and growth threats typically aid bullion, its haven status was sidelined by a persistently stronger greenback. Finally, copper tumbled lower as fears of a global recession weighed on the demand outlook for the metal seen as an economic bellwether due to its wide range of uses.

Economic Overview

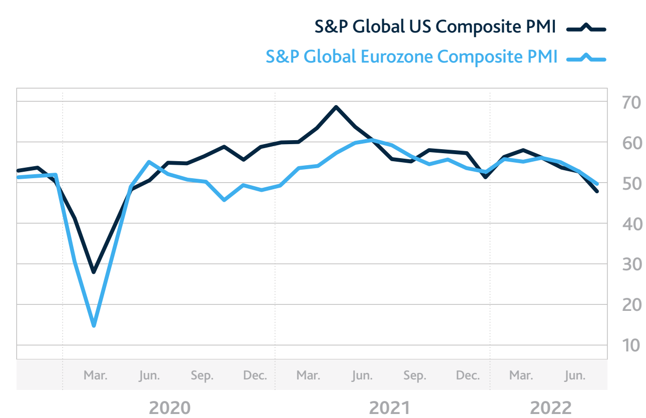
CANADA

The latest Bank of Canada Survey of Consumer Expectations (CSCE) showed that that consumers' inflation expectations rose notably across all time horizons in the second quarter, a worrisome development that has underscored the urgency for the Bank of Canada to act. Indeed, the Bank of Canada surprised the market and lifted the overnight rate by 100 basis points to 2.5% at the July gathering. The tone of the communiqué was unambiguously hawkish, with even greater emphasis placed on inflation momentum, excess demand, and the robust labor market versus the June gathering. Specifically, the central bank noted that the economy has moved further into excess demand, highlighting the record low in the unemployment rate, rising wages, and widespread labour shortages. Critically, the BoC's focus on the inflation front has shifted to domestic factors as increasingly important drivers of inflation, rather than blaming the inflationary shock on global disruptions – reinforcing lingering concerns that the Bank of Canada will have a difficult time wrestling inflation back down to target.



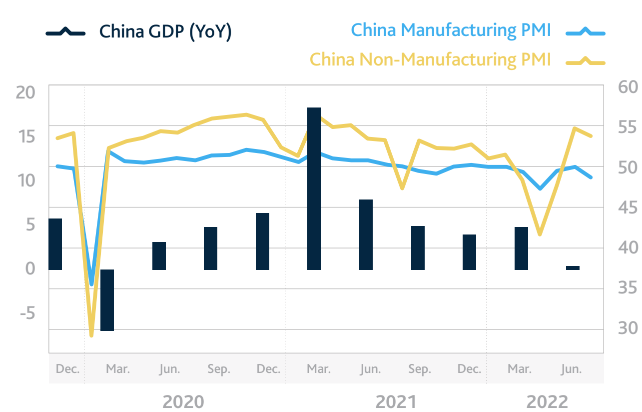
INTERNATIONAL

The S&P Global Purchasing Manager Indices (PMI) sent an ominous signal about economic activity in July and signaled that the global economy lost some momentum at the beginning of the third quarter. The Eurozone Composite index of factory and services activity dropped into contractionary territory (at 49.4 from 52.0). The manufacturing index dropped below the 50 boom-bust line (to 49.6 from 52.1), while the deceleration in service sector activity was more pronounced than anticipated (at 50.6, down from 53.0). Similarly in the US, the Composite PMI fell into contraction terrain in July, collapsing from 52.3 to 47.5. The weakness was concentrated in the services sector (47.0, down from 52.7), while the manufacturing index eased to 52.3 (from 52.7). These results highlight the downside risks facing developed market economies as central banks aggressively raise interest rates to tame rampant inflation. Notably, the challenge of cooling the economy enough to stem inflation but not so much as to tip into recession is becoming increasingly challenging.



EMERGING MARKETS

The Chinese economy lost some momentum in the second quarter and grew at the slowest pace since the country was first hit by the coronavirus outbreak two years ago. GDP growth slowed dramatically to 0.4% y/y in the second quarter from 4.8% y/y in the first quarter. Regrettably, it would appear that the deterioration in economic activity extended into the third quarter, with recent Covid outbreaks and China's strict Covid Zero policy exacerbating already-weak domestic and global growth conditions. In a surprise development, the Official Chinese Manufacturing PMI contracted in July, falling to 49.0 (from 50.2 in June). The non-manufacturing PMI, which measures activity in the construction and services sectors, continued to expand, albeit at a weaker pace. Looking ahead, caution is warranted. While stimulus from the government should support a rebound in investment and production, consumer spending may have weakened again at the start of the third quarter due to fresh virus outbreaks and tightened containment measures in July.



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	JULY 29, 2022	DEEP RECESSION	SHALLOW RECESSION	STAGFLATION
PROBABILITY		50%	30%	20%
GDP GROWTH				
Global	2.90%	1.50%	2.50%	2.00%
Canada	1.90%	-1.00%	-0.50%	1.50%
U.S.	1.30%	-2.00%	-1.00%	1.00%
INFLATION (HEADLINE Y/Y)				
Canada	8.10%	8.00%	6.00%	4.00%
U.S.	9.10%	9.00%	7.00%	5.00%
SHORT-TERM RATES				
Bank of Canada	2.50%	6.00%	4.25%	3.25%
Federal Reserve	2.50%	6.00%	4.25%	3.25%
10-YEAR RATES				
Canada Government	2.61%	5.00%	4.00%	3.50%
U.S. Government	2.65%	5.00%	4.00%	3.50%
PROFIT ESTIMATES (12 MONTHS FORWARD)				
Canada	1625	1300	1400	1575
U.S.	235	175	225	240
EAFE	156	100	130	155
EM	88	65	75	90
P/E (12 MONTHS FORWARD)				
Canada	12.1X	12.0X	14.0X	14.5X
U.S.	17.6X	16.5X	17.5X	18.5X
EAFE	12.4X	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	1.02	1.00	1.10	1.15
USD/JPY	133.27	135.00	125.00	115.00
COMMODITIES				
Oil (WTI, USD/barrel)	98.62	90.00	110.00	130.00
Gold (USD/oz)	1762.90	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	4.3%	3.4%	2.9%
Canadian Bonds	-13.3%	-6.6%	-3.0%
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	-20.8%	-0.5%	16.0%
U.S. Equity	-27.2%	-6.9%	-1.2%
International Equity	-35.5%	-8.2%	6.7%
Emerging Market Equity	-25.0%	-4.2%	16.6%
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

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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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