Fiera Capital Global Asset Allocation

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FIERA CAPITAL

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Sentiment deteriorated and financial markets relapsed in May on the back of a hawkish re-pricing of central bank policy expectations, a sluggish global growth landscape, and debt ceiling jitters in the United States. However, the end of the month brought some good news on the latter. After weeks of negotiations, President Biden and Speaker McCarthy reached a deal to suspend the debt ceiling and averted a US default. Still, while investors breathed a sigh of relief in response, focus has swiftly reverted back to the precarious environment of persistent inflation and looming recession risks.

FINANCIAL MARKET DASHBOARD

	MAY 31, 2023	MAY	YTD	1 YEAR
EQUITY MARKETS		% PRICE CHANGE (LC)		
S&P 500	4180	0.25%	8.86%	1.15%
S&P/TSX	19572	-5.16%	0.97%	-5.58%
MSCI EAFE	2042	-4.76%	5.04%	0.19%
MSCI EM	959	-1.90%	0.22%	-11.06%
FIXED INCOME (%)		BASIS POINT CHANGE		
U.S. 10 Year Treasury Yield	3.64	22.1	-23.2	79.9
U.S. 2 Year Treasury Yield	4.40	39.6	-2.3	184.6
U.S. Corp BBB Spread	1.88	7.0	2.0	6.0
U.S. Corp High Yield Spread	5.15	9.0	6.0	92.0
CURRENCIES		% PRICE CHANGE		
EUR/USD	1.07	-2.99%	-0.15%	-0.42%
CAD/USD	0.74	-0.16%	-0.15%	-6.82%
USD/JPY	139.34	2.23%	6.27%	8.29%
COMMODITIES		% PRICE CHANGE		
WTI Oil (USD/bbl)	68.09	-11.32%	-15.16%	-40.62%
Copper (USD/pound)	3.64	-6.02%	-4.55%	-15.34%
Gold (USD/oz)	1963.90	-1.76%	7.54%	6.58%

Source: Bloomberg, as of May 31, 2023.

Global equity markets generated negative results in May. Regionally speaking, the results were mixed. On the one hand, the tech-heavy S&P 500 managed to buck the global trend and eked out a positive (0.3%) return thanks to the profound rally in mega cap tech stocks that has put the S&P 500 on the verge of a bull market. The Nasdaq 100 gained 7.6%. Elsewhere, declines were fairly widespread. The S&P/TSX fell by 5.2%, the MSCI EAFE declined 4.8%, and the MSCI gauge of emerging market stocks was down by 1.9%.

Fixed income markets also posted negative results last month. Bond yields pushed higher as investors revised their expectations for a pivot towards rate cuts in response to continued signs of economic resiliency that have complicated central banks' quest to tame inflation. Markets are now fully-priced for an additional 25 basis point rate hike from both the Federal Reserve and the Bank of Canada this summer and have all but wiped out calls for rate cuts in the back half of 2023. Notably, at the start of May, expectations were for the Federal Reserve to cut rates below current levels to just above 4.5% by the end of the year. However, traders now expect the fed funds rate to end 2023 around its current level. Similar moves were seen in Canada following upside surprises to the latest growth and inflation results, which prompted traders to bump-up terminal Bank of Canada rate pricing. The FTSE Canada Bond Universe fell by 1.7%, while the Barclays US Aggregate Bond Index shed 1.1%.

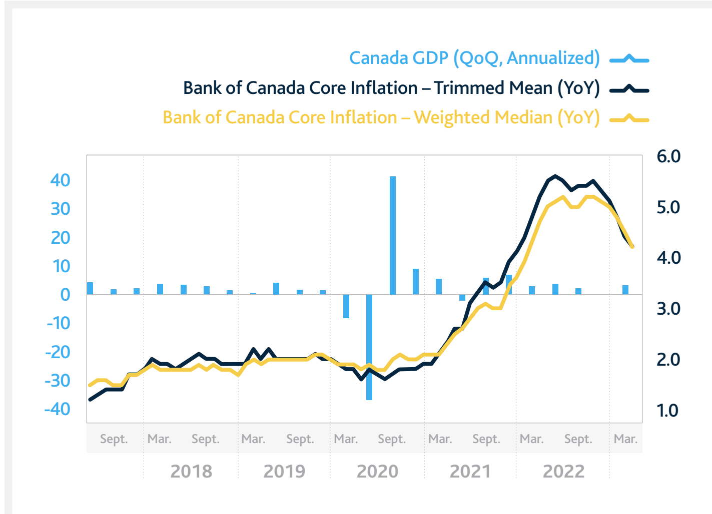
In currency markets, the US dollar strengthened alongside wagers for a higher fed funds rate, which sent both treasury yields and the greenback soaring higher. Rate differentials between the United States and the rest of the world widened in response and the greenback was stronger against all of its Group-of-10 peers last month.

Commodity markets saw some widespread weakness last month. Oil stumbled lower as concerns about wavering global demand dominated the outlook, while copper slid to its lowest since November following data releases that showed an underwhelming post-Covid recovery in top-consuming China. Finally, gold retreated as late-month progress towards a resolution of the debt ceiling debacle eroded demand for the safe haven metal – while speculation for additional tightening from the Federal Reserve lifted treasury yields and reduced the allure of the non-interest-bearing precious metal.

Economic Overview

CANADA

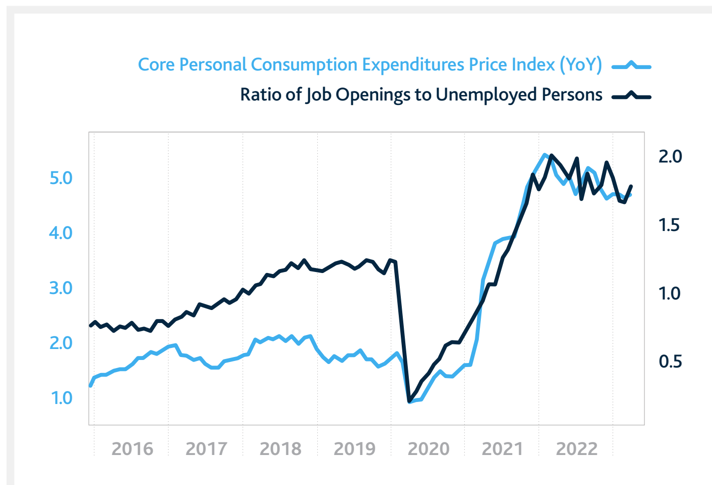
The Canadian economy got off to a solid start to 2023 and extended a streak of better-than-expected growth, which has brought into question whether the Bank of Canada has sufficiently raised interest rates. The economy expanded at a 3.1% annualized pace in the first quarter, exceeding the Bank of Canada's forecast of 2.3%, which suggests that the economy is in a deeper state of excess demand than expected. Household spending drove the first quarter gain and posted growth of 5.7% - the fastest pace since the second quarter of 2022. This enabled final domestic demand to surge by 2.6%, well above the trend rate of growth. Meanwhile, the Bank of Canada's underlying "core" inflation metrics have settled in around 4% y/y, which is still too high for the central bank's comfort. Together with a resilient economy and core inflation that is still unacceptably elevated, it would appear that the Bank of Canada's policy stance is not yet restrictive enough to bring inflation lower - which raises the likelihood that the Bank will move off the sidelines and raise interest rates again in response.



Source: Bloomberg, as of May 31, 2023.

UNITED STATES

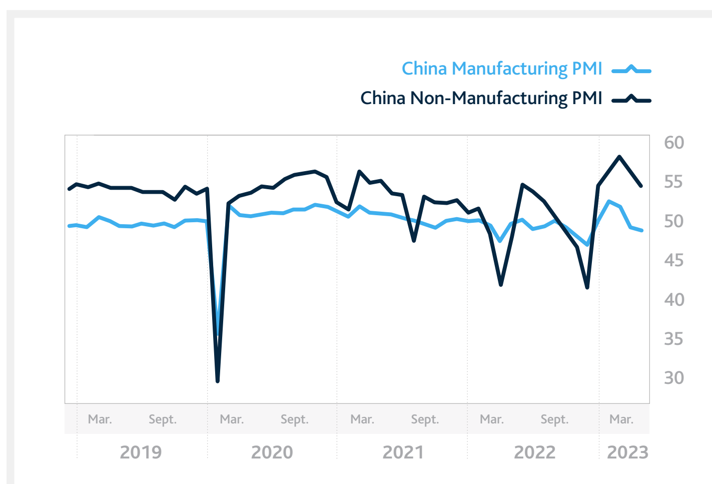
The latest batch of data in the United States suggests that that the Federal Reserve's quest to rein-in inflation is not yet complete. The economy added a robust 339k jobs in May, three-times what's required to meet trend growth in the labor force. And while average hourly earnings slowed to 4.3% y/y, the more timely three-month annualized change rose to 4.0% (from 3.8%). Somewhat worrisome is that imbalances in the labor market are persisting and are keeping wages too-hot for comfort. Job openings unexpectedly surged to the highest in three months in April, while the ratio of openings to unemployed people rose to 1.8 versus a pre-pandemic level of 1.2, underscoring how demand for workers continues to outstrip supply. The Federal Reserve has stressed it's key to get the two back into balance in order to cool wage growth. Meanwhile, underlying price pressures are showing few signs of abating in a meaningful way. The core personal consumption expenditures (PCE) price index, one of the Federal Reserve's preferred inflation gauges, accelerated to 4.7% y/y in April.



Source: Bloomberg, as of May 31, 2023.

EMERGING

China's underwhelming post-Covid recovery has raised fresh fears about the global growth outlook. Data showed that industrial output, retail sales, and fixed investment all grew at a much slower pace than expected in April. The forward-looking purchasing manager indices (PMI) corroborated this narrative. Critically, the Manufacturing PMI unexpectedly fell deeper into contraction terrain in May, while the Non-Manufacturing PMI moderated but held firmly in expansion-mode. The data highlights the bifurcated nature of the recovery, which is being led by consumer spending on services while the manufacturing sector has lagged. Ultimately, these dynamics suggest that despite the economic reopening that mainly benefits domestic service producers, demand for Chinese manufactured goods remains weak. Notably, the ongoing global consumption shift to services following pandemic overspending on goods is a headwind for Chinese exporters. A weakening global economy is also adding to China's gloom, with high inflation and rising interest rates in China's key trading partners markets cutting demand for Chinese-made goods.



Source: Bloomberg, as of May 31, 2023.

Economic Scenarios

Main Scenario | Deep Recession

Probability **55%**

In our high probability scenario, stubbornly elevated inflation that proves increasingly entrenched triggers the continuation of aggressive monetary tightening that inevitably sparks a recession. The depth and magnitude of the recession ultimately 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. While goods prices peak and begin to roll over, underlying "core" inflation proves to be more sticky and entrenched, with wages, services inflation, and shelter costs all remaining uncomfortably elevated. Inflation expectations de-anchor and spiral higher, which forces central banks to prioritize tackling inflation in order to restore their inflation-control credibility, regardless of the economic fallout. As a result, central banks tighten monetary policy much more assertively and keep rates in restrictive terrain for longer. Policymakers are unlikely to pause the rate hike cycle until they see convincing evidence that inflation is coming down, which ultimately means that central banks will be hiking interest rates well into economic weakness, making way for a "Deep Recession."

Scenario 2 | Stagflation

Probability **30%**

As policymakers are unable to simultaneously achieve their inflation and growth targets, they are forced to choose between the two and opt to prioritize the economy and live with above-target inflation. In this "Stagflationary" scenario, well-anchored long-term inflation expectations lower the risk of a wage price spiral and allow the Federal Reserve to prioritize financial stability and live with above-target inflation for longer, with the central bank abandoning its tightening campaign at levels that would avoid an outright contraction in growth. Global growth slows to below-potential levels, but global inflation remains elevated and above-target. This economic scenario is reinforced by the growth dampening impact of banking sector stress and tighter financial conditions as the emergence of financial stress challenges the Federal Reserve's ability to keep raising rates, with the lingering risk of prolonged financial instability increasing the likelihood that the Federal Reserve will pivot.

Scenario 3 | Disinflation

Probability **15%**

In the "Disinflation" scenario, the economy proves to be much weaker than previously thought, which when combined with the disinflationary forces from cumulative monetary policy tightening sends inflation spiraling lower. While the banking crisis raises the risk of a recession, it also accelerates the disinflationary impulse in a meaningful way and prompts central bankers to pause their tightening campaign and eventually cut interest rates. Consequently, the economy averts a hard landing scenario, and a new economic cycle begins by the middle of 2024.

Forecasts for the Next 12-18 Months

SCENARIOS	MAY 31, 2023	DEEP RECESSION	STAGFLATION	DISINFLATION
PROBABILITY		55%	30%	15%
GDP GROWTH				
Global	2.50%	1.00%	2.50%	3.50%
U.S.	1.10%	-2.00%	0.50%	2.50%
Canada	0.80%	-1.00%	1.00%	2.00%
INFLATION (HEADLINE Y/Y)				
U.S.	4.90%	4.50%	5.50%	3.00%
Canada	4.40%	4.00%	4.50%	3.00%
SHORT-TERM RATES				
Federal Reserve	5.25%	6.00%	5.00%	4.00%
Bank of Canada	4.50%	5.50%	4.50%	3.50%
10-YEAR RATES				
U.S. Government	3.64%	5.00%	4.50%	3.50%
Canada Government	3.19%	5.00%	4.50%	3.00%
PROFIT ESTIMATES (12 MONTHS FORWARD)				
U.S.	231	200	240	260
Canada	1473	1300	1500	1600
EAFE	158	125	155	165
EM	76	65	80	85
P/E (12 MONTHS FORWARD)				
U.S.	18.1X	15.0X	17.0X	19.5X
Canada	13.0X	12.0X	14.5X	15.5X
EAFE	12.9X	12.0X	14.0X	16.0X
EM	12.6X	11.0X	13.0X	15.0X
CURRENCIES				
EUR/USD	1.07	1.00	1.15	1.12
CAD/USD	0.74	0.75	0.85	0.80
COMMODITIES				
Oil (WTI, USD/barrel)	68.09	90.00	130.00	100.00
Gold (USD/oz)	1963.90	1900.00	2100.00	2000.00

Source: Fiera Capital, as of May 31, 2023.

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. Past performance is not a guarantee of future results. Inherent in any investment is the potential for loss.

Portfolio Strategy

Matrix of Expected Returns (USD)

SCENARIOS	DEEP RECESSION	STAGFLATION	DISINFLATION
PROBABILITY	**55%**	**30%**	**15%**
TRADITIONAL INCOME			
Money Market	5.6%	5.1%	4.6%
U.S. Investment Grade Bonds	-7.6%	-4.0%	2.0%
NON-TRADITIONAL INCOME			
Diversified Credit	6.0%	8.0%	7.0%
Diversified Real Assets	5.0%	8.0%	7.0%
TRADITIONAL CAPITAL APPRECIATION			
U.S. Equity Large Cap	-28.2%	-2.4%	21.3%
International Equity	-26.5%	6.3%	29.3%
Emerging Market Equity	-25.4%	8.5%	33.0%
NON-TRADITIONAL CAPITAL APPRECIATION			
Private Equity & Placements	5.0%	12.0%	15.0%
Liquid Alternatives	0.0%	5.0%	7.5%

Source: Fiera Capital, as of May 31, 2023.

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Current Strategy[1]

TRADITIONAL AND NON-TRADITIONAL PORTFOLIOS

	MINIMUM	BENCHMARK	MAXIMUM	STRATEGY	+/-
TRADITIONAL INCOME	**0.0%**	**17.5%**	**40.0%**	**27.5%**	**+10.0%**
Money Market	0.0%	0.0%	40.0%	27.5%	+27.5%
U.S. Investment Grade Bonds	0.0%	17.5%	40.0%	0.0%	-17.5%
NON-TRADITIONAL INCOME	**0.0%**	**30.0%**	**50.0%**	**38.5%**	**+8.5%**
Diversified Credit	0.0%	12.0%	25.0%	15.5%	+3.5%
Diversified Real Assets	0.0%	18.0%	40.0%	23.0%	+5.0%
TRADITIONAL CAPITAL APPRECIATION	**17.5%**	**37.5%**	**57.5%**	**17.5%**	**-20.0%**
U.S. Equity Large Cap	0.0%	20.0%	40.0%	10.0%	-10.0%
International Equity	0.0%	12.5%	20.0%	2.5%	-10.0%
Emerging Market Equity	0.0%	5.0%	20.0%	5.0%	0.0%
NON-TRADITIONAL CAPITAL APPRECIATION	**0.0%**	**15.0%**	**40.0%**	**16.5%**	**+1.5%**
Private Equity	0.0%	10.0%	25.0%	11.0%	+1.0%
Liquid Alternatives	0.0%	5.0%	15.0%	5.5%	+0.5%

Source: Fiera Capital, as of May 31, 2023.

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. Past performance is not a guarantee of future results. Inherent in any investment is the potential for loss.

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