Fiera Capital Global Asset Allocation

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Financial markets fluctuated at the end of the second quarter as investors contemplated the environment of resilient growth, persistent inflation, and the trajectory for monetary policy. Global equity markets extended their 2023 gains in June amid mounting speculation that central banks will relent on the fight against inflation and engineer a soft economic landing – while bond markets wavered as investors reassessed their expectations for interest rates in the back half of 2023.

FINANCIAL MARKET DASHBOARD

	JUNE 30, 2023	JUNE	YTD	1 YEAR
EQUITY MARKETS		% PRICE CHANGE (LC)		
S&P 500	4450	6.47%	15.91%	17.57%
S&P/TSX	20155	2.98%	3.97%	6.86%
MSCI EAFE	2132	4.40%	9.66%	15.46%
MSCI EM	989	3.23%	3.46%	-1.12%
FIXED INCOME (%)		BASIS POINT CHANGE		
U.S. 10 Year Treasury Yield	3.84	19.4	-3.8	82.4
U.S. 2 Year Treasury Yield	4.90	49.3	47.0	194.2
U.S. Corp BBB Spread	1.72	-16.0	-14.0	-41.0
U.S. Corp High Yield Spread	4.66	-49.0	-43.0	-125.0
CURRENCIES		% PRICE CHANGE		
EUR/USD	1.09	2.06%	1.91%	4.05%
CAD/USD	0.76	2.51%	2.36%	-2.78%
USD/JPY	144.31	3.57%	10.06%	6.33%
COMMODITIES		% PRICE CHANGE		
WTI Oil (USD/bbl)	70.64	3.75%	-11.99%	-33.21%
Copper (USD/pound)	3.74	2.86%	-1.82%	0.71%
Gold (USD/oz)	1929.40	-1.76%	5.65%	6.76%

Source: Bloomberg, as of June 30, 2023.

Global equity markets generated positive results in June, with the MSCI All Country World rising nearly 6%. While the 2023 gains in the S&P 500 have been narrowly concentrated in mega-cap tech stocks, the rally broadened out in June, with all S&P 500 sectors ending the month in positive terrain. The S&P 500 rose 6.5% in June. The equity market rally was also widespread across other major markets. The S&P/TSX advanced 3.0%, while the MSCI EAFE gained 4.4% and the MSCI gauge of emerging market stocks rose 3.2%.

Fixed income markets wavered last month. Bond yields pushed higher following signs of economic resiliency and still-elevated inflation that prompted traders to recalibrate their expectations for interest rates. Wagers for rate cuts have fizzled away and markets are instead bracing for additional rate hikes in the back half of 2023. Yield curves bear-flattened, with the policy-sensitive short-end of the curve seeing the biggest upward move. The 2 year treasury yield rose by 49 basis points to 4.90%, while the yield on the 10 year treasury rose by 19 basis points to 3.84%. Both are at their highest levels since the banking turmoil in early March. The Barclays US Aggregate Bond Index shed 0.36%, while the FTSE Canada Bond Universe was virtually unchanged.

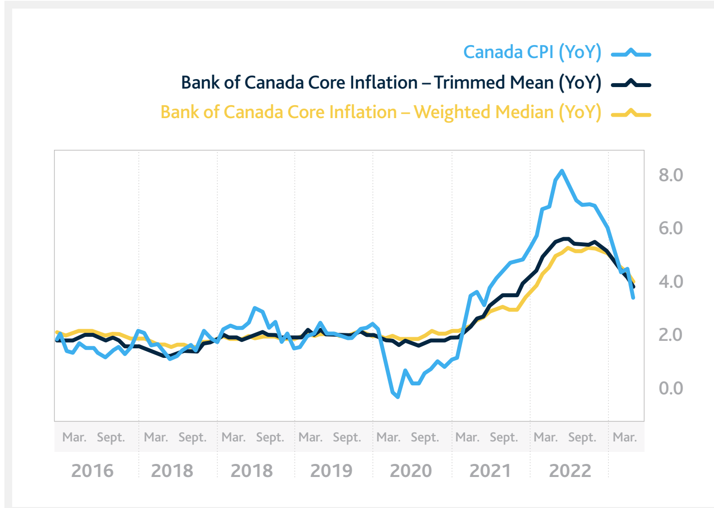
The US dollar retreated after some hopeful signs that inflation is subsiding, which cemented expectations that the Federal Reserve may be nearing the end of its tightening cycle. Still, while the Fed paused in June, officials have still penciled in two more rate hikes before year-end. The yen declined as a dovish Bank of Japan put its monetary policy further at odds with the Federal Reserve and saw interest rate differentials widen in response. The Canadian dollar advanced on the back of the monthly gain in crude prices, while the Bank of Canada surprised the market and raised interest rates in June. The euro strengthened after the European Central Bank forged ahead with its tightening campaign and raised rates by another quarter-point in June and set the stage for another hike in July.

Finally, oil was on track for a monthly decline as persistent concerns over the demand outlook overshadowed a generally restrained supply backdrop. However, oil rallied towards month-end following a larger-than-expected decline in US crude stockpiles that provided some optimism for a market weighed down by demand concerns – while gold declined after major central banks signaled they'd need to stay hawkish for longer in order to bring down inflation.

Economic Overview

CANADA

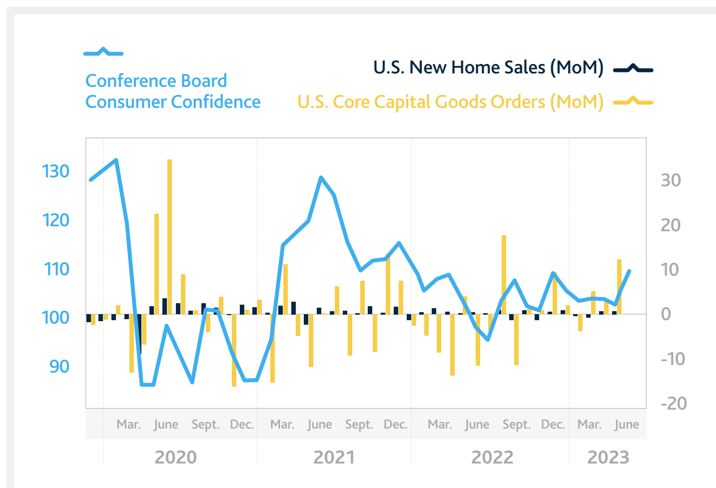
The Canadian economy posted the strongest growth among G7 countries in the first quarter, while economic resilience has also extended into the second quarter. Canada's economy regained momentum in May, potentially reinforcing the case for a July rate hike even as inflation has slowed somewhat. Preliminary data from Statistics Canada suggests that gross domestic product expanded 0.4% m/m in May following a flat reading in April. The economy is now on track to expand at a 1.4% annualized rate in the second quarter, if June output is flat. That's faster than the Bank of Canada's forecast of 1%. The report shows Canada's economy continuing to defy expectations of a coming slowdown and adds to a string of firm data that already prompted the Bank of Canada to step off the sidelines and raise interest rates in June. While consumer price gains reached the weakest pace in two years in May, the Bank of Canada may need to raise rates again to squeeze out excess demand.



Source: Bloomberg, as of June 30, 2023.

UNITED STATES

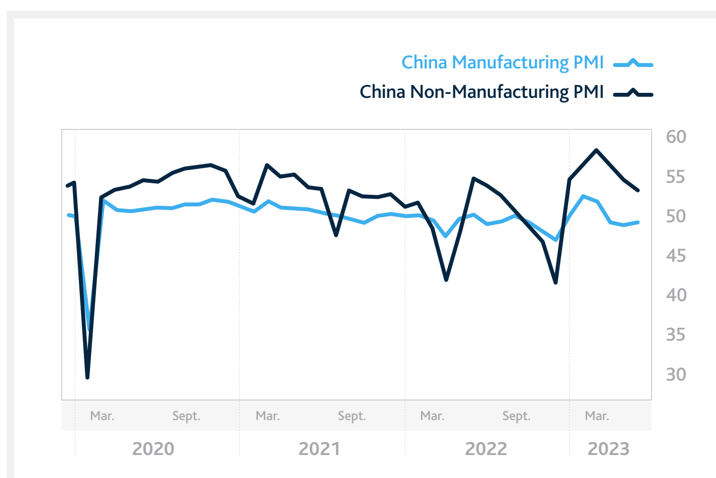
The US economy has been remarkably resilient in 2023, underscoring how monetary policy has yet to exert enough of a braking force on the economy and inflation. Indeed, good news on the economic front is translating into bad news for the Federal Reserve as its quest to tackle inflation lingers on. The latest string of economic data did little to dissuade this narrative, with better-than-expected housing market data, consumer confidence, and factory activity all underscoring that the economy continues to chug along at a firm pace. Specifically, new homes sales rose to their highest level since February 2022, consumer confidence jumped to the highest level since January 2022, and manufacturers' new orders of durable goods blew out expectations for a contraction with a healthy advance. Meanwhile, the inflation data has shown very little sign of relenting in a meaningful way. The Federal Reserve's preferred gauge of inflation (the core personal consumption expenditures price index) was up 4.6% y/y in May, well-above the 2% objective.



Source: Bloomberg, as of June 30, 2023.

EMERGING

China's economy lost further steam in June. The manufacturing purchasing managers' index (PMI) held in contraction terrain for a third straight month, while the non-manufacturing gauge that measures activity in construction and services slipped, but held above the 50-mark signaling expansion. The economy is facing a number of headwinds, including weak business and consumer confidence, a faltering property market, and slowing global demand for exports. Speculation about potential policy support has been mounting as the recovery loses traction. The People's Bank of China cut interest rates in June for the first time in nearly a year. However, experts largely project stimulus this year will be moderate, with strains from cash-strapped local governments and concerns about the impact of more rate cuts on the yuan among the factors limiting the scope for support. The government's desire to avoid aggravating structural imbalances in the economyand financial system suggests that the stimulus measures are unlikely to boost growth in a meaningful way.



Source: Bloomberg, as of June 30, 2023.

Economic Scenarios

Main Scenario | Deep Recession

Probability **50%**

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 **35%**

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	JUNE 30, 2023	DEEP RECESSION	STAGFLATION	DISINFLATION
PROBABILITY		50%	35%	15%
GDP GROWTH				
Global	2.70%	1.00%	2.50%	3.50%
U.S.	0.70%	-2.00%	0.50%	2.50%
Canada	0.70%	-1.00%	1.00%	2.00%
INFLATION (HEADLINE Y/Y)				
U.S.	4.00%	2.50%	4.50%	2.50%
Canada	3.40%	2.00%	3.50%	2.50%
SHORT-TERM RATES				
Federal Reserve	5.25%	6.00%	5.50%	4.00%
Bank of Canada	4.75%	5.50%	5.00%	3.50%
10-YEAR RATES				
U.S. Government	3.84%	5.00%	4.50%	3.50%
Canada Government	3.27%	5.00%	4.50%	3.00%
PROFIT ESTIMATES (12 MONTHS FORWARD)				
U.S.	232	200	240	260
Canada	1465	1300	1500	1600
EAFE	156	125	155	165
EM	75	65	80	85
P/E (12 MONTHS FORWARD)				
U.S.	19.2X	15.0X	17.0X	19.5X
Canada	13.8X	12.0X	14.5X	15.5X
EAFE	13.6X	12.0X	14.0X	16.0X
EM	13.2X	11.0X	13.0X	15.0X
CURRENCIES				
EUR/USD	1.09	1.00	1.15	1.12
CAD/USD	0.76	0.75	0.85	0.80
COMMODITIES				
Oil (WTI, USD/barrel)	70.64	90.00	130.00	100.00
Gold (USD/oz)	1929.40	1900.00	2100.00	2000.00

Source: Fiera Capital, as of June 30, 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	50%	35%	15%
TRADITIONAL INCOME			
Money Market	5.6%	5.4%	4.6%
U.S. Investment Grade Bonds	-5.1%	-1.6%	4.4%
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	-32.6%	-8.3%	13.9%
International Equity	-29.6%	1.8%	23.8%
Emerging Market Equity	-27.7%	5.1%	28.9%
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 June 30, 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 June 30, 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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