Fiera Capital Global Asset Allocation

MONTHLY UPDATE: APRIL 2024

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The first quarter wrapped up on a positive note, with solid growth data in the United States offsetting the environment of still-hot inflation and the latest Fedspeak that has reinforced bets officials will be in no rush to cut interest rates. Hopes for a so-called "soft landing" catalyzed a market rally that sent many global indices to new record highs.

FINANCIAL MARKET DASHBOARD				
	MAR. 29, 2024	MAR.	YTD	1 YEAR
EQUITY MARKETS		% PRICE CHANGE (LC)		
S&P 500	5254	3.10%	10.16%	27.86%
S&P/TSX	22167	3.76%	5.77%	10.28%
MSCI EAFE	2349	2.78%	5.06%	12.27%
MSCI EM	1043	2.18%	1.90%	5.34%
FIXED INCOME (%)		BASIS POINT CHANGE		
U.S. 10 Year Treasury Yield	4.20	-5.0	32.1	73.3
U.S. 2 Year Treasury Yield	4.62	0.1	37.0	59.5
U.S. Corp BBB Spread	1.28	-8.0	-6.0	-52.0
U.S. Corp High Yield Spread	3.46	-16.0	-25.0	-156.0
CURRENCIES		% PRICE CHANGE		
EUR/USD	1.08	-0.15%	-2.26%	-0.46%
CAD/USD	0.74	0.27%	-2.20%	-0.18%
USD/JPY	151.38	0.93%	7.33%	13.94%
COMMODITIES		% PRICE CHANGE		
WTI Oil (USD/bbl)	83.17	6.27%	16.08%	9.91%
Copper (USD/pound)	400.70	4.50%	2.99%	-2.14%
Gold (USD/oz)	2217.40	7.92%	7.03%	12.62%

Source: Bloomberg, as of March 29, 2024.

Global stock markets notched their fifth straight monthly gain in March, with the MSCI All Country World gaining nearly 3.0%. The S&P 500 rose 3.1%, while the S&P/TSX added 3.8% – with strength in the heavyweight energy and materials sectors driving Canadian equity outperformance last month. Both the S&P 500 and the S&P/TSX ended the first quarter at record highs. Elsewhere, the MSCI EAFE advanced 2.8%, while the MSCI gauge of emerging market equities gained 2.2%, with underperformance driven by Chinese stocks after an underwhelming stimulus announcement at the National People's Congress.

Fixed income markets also generated positive results in March as investors digested comments from Federal Reserve officials who reiterated that the central bank is in no rush to cut borrowing costs. Comments from Governor Waller weighed on the front-end of the treasury curve late in the month after saying the recent data warrants fewer rate cuts and a later start to monetary policy easing. Chair Powell echoed these remarks late in the month, repeating that the central bank isn't in any rush to cut interest rates as policymakers await more evidence that inflation is contained. Investors have pared back earlier expectations for as much as six cuts this year to fewer than three currently. For the month, the Barclays US Aggregate Bond Index rose 0.9%, while the FTSE Canada Bond Universe gained 0.5%.

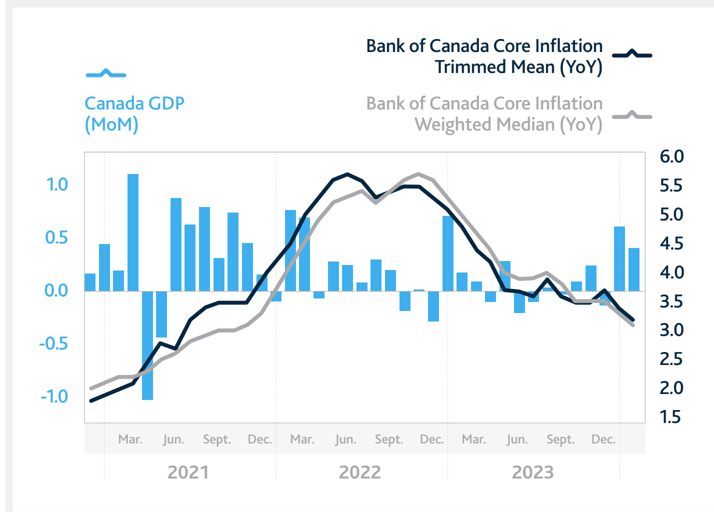
The US dollar (DXY) extended its winning streak in March following comments from Federal Reserve officials who repeated that its premature to cut interest rates. Solid economic data in the United States also buttressed the greenback, with gross domestic product and consumer spending both posting strong advances at the end of 2023 – while consumer sentiment rose markedly toward the end of March. The greenback was stronger versus the yen (-0.9%) and euro (-0.1%), while remaining virtually unchanged versus the pound. The Canadian dollar (+0.3%) managed to buck the global trend and strengthened on the back of the latest rally in crude oil prices.

On that note, oil clinched its third straight monthly gain and sealed an impressive 16% quarterly advance on the back of bullish tailwinds stemming from lower OPEC+ output and escalating Middle East tensions that have tightened physical market conditions. Finally, gold extended its recent gains to hit a fresh all-time high – fueled by bets for an eventual pivot to rate cuts later in 2024 and amid deepening geopolitical tensions that have boosted demand for the safe haven metal.

Economic Overview

CANADA

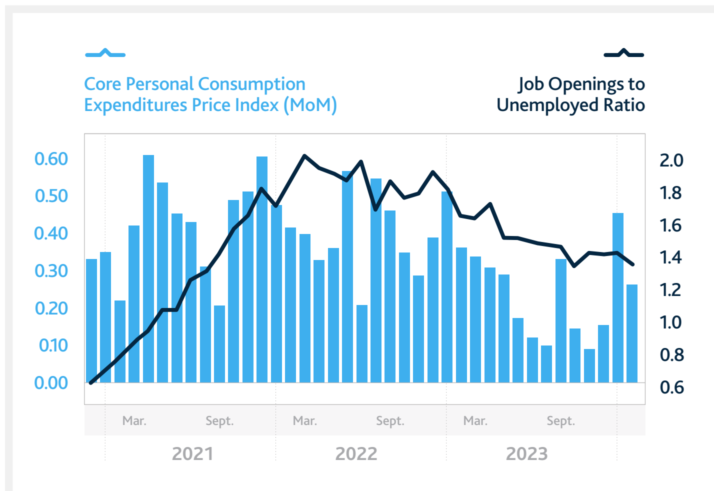
The Canadian economy kicked off 2024 on a solid note and grew by 0.6% m/m in January, while the advanced reading for February is calling for another healthy 0.4% m/m print. Combined, the monthly gains show that first quarter gross domestic product (GDP) is tracking significantly higher than the Bank of Canada's forecast of 0.5% quarter-on-quarter annualized. This presents a difficult balancing act for the central bank. On the one hand, the Bank of Canada has received encouraging evidence that inflation is cooling. The consumer price index (CPI) rose 2.8% y/y in February – the slowest pace since June. Meanwhile, the Bank of Canada's two preferred core inflation measures also slowed, averaging 3.15% y/y from 3.35% y/y a month earlier. Still, the core metrics are running faster due to sticky shelter inflation that's running at 6.5% y/y. However, strong GDP data prints are likely to keep the central bank patient for now. Indeed, Governor Macklem recently said policymakers need to "give higher rates more time to do their work."



Source: Bloomberg, as of March 29, 2024.

UNITED STATES

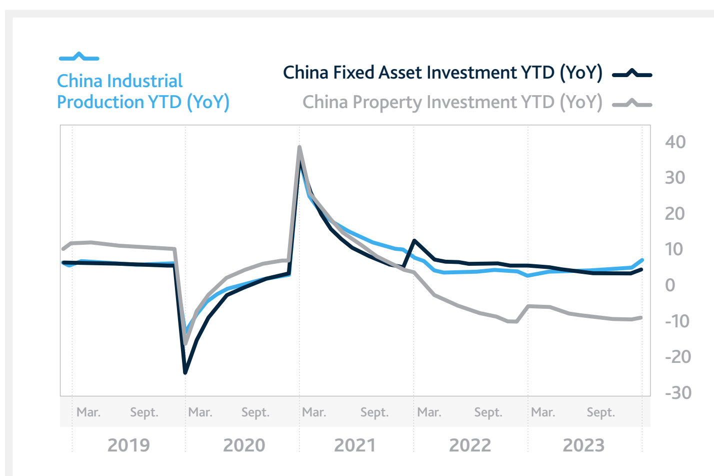
The disinflationary impulse from 2023 stalled-out in early 2024, while resilient growth and a relatively tight labor market have brought into question calls for multiple rate cuts this year. The Federal Reserve's preferred gauge of underlying inflation, the core personal consumption expenditures (PCE) price index, came in hot for a second straight month in February. What's more, the shorter-term 3-month rate of change rose to 3.5% in a worrisome sign that inflation may be reaccelerating. Meanwhile, the number of job openings was little changed in February (at 8.76 million), while the closely monitored ratio of job openings to unemployed persons (1.36) remains above its pre-pandemic level (1.20). As job openings are a leading indicator for wage growth, the latest stabilization suggests that wages may be settling at current elevated levels that are inconsistent with the Federal Reserve's 2% target. The data gives credence to comments from Governor Waller, who said there is no rush to lower interest rates - emphasizing that recent data warrants delaying or reducing the number of cuts seen this year.



Source: Bloomberg, as of March 29, 2024.

EMERGING

In China, the activity data for the first two months of the year revealed an uneven recovery for the world's second largest economy. On the one hand, industrial production and fixed asset investment growth both came in above consensus expectations - accelerating to 7.0% y/y and 4.2% y/y, respectively. On the other hand, the property market data continues to disappoint, with a larger-than-expected 9.0% y/y contraction in property market investment and a collapse in residential property sales (-32.7% y/y). Elsewhere, the 5.5% y/y increase in retail sales was broadly in line with consensus forecasts. The strong industrial and investment figures add to evidence that some parts of the economy are gaining traction after policymakers ramped up stimulus late last year. However, the data indicates that recent easing measures have failed to boost activity in the property market, reducing the likelihood of a meaningful recovery for the wider economy – and suggests that a more aggressive approach to stimulus is needed to boost economic growth.



Source: Bloomberg, as of March 29, 2024.

Economic Scenarios

Main Scenario | Soft Landing

Probability **50%**

In this optimistic scenario, the world's major central banks prove successful in engineering a so-called soft economic landing, thanks to a persistent downtrend in inflation that comes with very limited deterioration in the economy. The disinflationary impulse prompts central bankers to transition from an on-hold monetary policy stance towards aggressive interest rate cuts in 2024 and inflation is contained without a recession or a significant cost to employment. Central banks achieve the soft landing by cutting rates at early signs of economic weakness, keeping the economy not-too-hot or not-too-cold, but just right. Consequently, the economy averts a hard landing and a new economic cycle begins.

Scenario 2 | Inflation Revival

Probability **30%**

In the "inflation revival" scenario, both growth and inflation surprise to the upside, which brings into question the ability of central banks to pivot towards easing monetary policy in 2024. Should persistent economic resilience, tighter than expected labour market conditions, and the recent easing of financial conditions spark a second wave of inflation, central banks would undoubtedly abandon their plans to cut interest rates and instead prioritize bringing inflation back to 2% by leaving interest rates at current elevated levels for an extended time. Indeed, cutting interest rates while the economy is operating above its potential and at a time when labour market conditions remain relatively tight risks slowing or even reversing the disinflation process. Amplifying the upside risks to inflation would be an unwelcome escalation in the geopolitical conflicts in Ukraine and/or the Middle East that would create an oil shock and add to the inflationary impulse. Taken together, unrelenting economic strength would pose an obstacle to imminent central bank rate cuts and would necessitate an extended period of restrictive monetary policy until inflation is firmly on the path to 2%.

Scenario 3 | Shallow Recession

Probability **20%**

In the "shallow recession" scenario, consumer-led tailwinds that acted as a buffer to the sharp increase in interest rates through 2023 morphs into headwinds that inevitably pushes the economy into a mild recession in 2024. Cumulative central bank tightening begins to weigh more meaningfully on both consumers and businesses given the long lags in the monetary transmission mechanism and weighs more prominently in the data. Specifically, household finances deteriorate under the weight of a cooling jobs market and dwindling excess savings that are set to be drawn down by mid-year. Meanwhile, tight monetary policy and credit conditions exerts more pain on businesses, manifesting itself into a surge in bankruptcies of vulnerable businesses. Inflation slows by much more than expected in response to the loss of economic momentum, with the disinflationary trend expedited by a potential de-escalation in geopolitical conflicts that pushes major commodity (food and energy) prices lower. Central banks begin cutting interest rates imminently and by more than previously thought, but not soon enough to avert a rise in unemployment and a mild recessionary outcome.

Forecasts for the Next 12-18 Months

SCENARIOS	MARCH 29, 2024	SOFT LANDING	INFLATION REVIVAL	SHALLOW RECESSION
PROBABILITY		50%	30%	20%
GDP GROWTH				
Global	3.00%	3.50%	4.00%	2.00%
U.S.	1.75%	1.50%	2.50%	-0.50%
U.S. Output Gap	1.00%	0.50%	1.00%	-1.50%
Canada	1.25%	1.00%	2.00%	-1.00%
INFLATION (HEADLINE Y/Y)				
U.S.	3.20%	2.50%	3.25%	2.00%
Canada	2.80%	2.50%	3.25%	2.00%
SHORT-TERM RATES				
Federal Reserve	5.50%	4.00%	5.50%	3.00%
Bank of Canada	5.00%	3.50%	5.00%	2.50%
10-YEAR RATES				
U.S. Government	4.20%	4.25%	5.00%	3.50%
Canada Government	3.47%	3.75%	4.50%	3.00%
PROFIT ESTIMATES (12 MONTHS FORWARD)				
U.S.	250	260	240	215
Canada	1458	1600	1550	1400
EAFE	156	160	155	135
EM	83	85	72	65
P/E (12 MONTHS FORWARD)				
U.S.	21.0X	22.5X	17.5X	18.0X
Canada	15.2X	15.5X	13.5X	13.0X
EAFE	15.1X	16.0X	14.0X	13.0X
EM	12.5X	15.0X	13.0X	12.0X
CURRENCIES				
EUR/USD	1.08	1.08	1.05	1.00
CAD/USD	0.74	0.80	0.75	0.70
COMMODITIES				
Oil (WTI, USD/barrel)	83.17	85.00	95.00	70.00
Gold (USD/oz)	2217.40	2200.00	1900.00	2300.00

Source: Fiera Capital, as of March 29, 2024.

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Portfolio Strategy

Matrix of Expected Returns (USD)

SCENARIOS	SOFT LANDING	INFLATION REVIVAL	SHALLOW RECESSION
PROBABILITY	**50%**	**30%**	**20%**
TRADITIONAL INCOME			
Money Market	4.8%	5.5%	4.3%
U.S. Investment Grade Bonds	1.1%	-1.7%	5.0%
NON-TRADITIONAL INCOME			
Diversified Credit	7.0%	8.0%	7.0%
Diversified Real Assets	7.0%	8.0%	6.0%
TRADITIONAL CAPITAL APPRECIATION			
U.S. Equity	11.3%	-20.1%	-26.3%
International Equity	9.1%	-7.5%	-25.2%
Emerging Market Equity	22.6%	-10.0%	-25.0%
NON-TRADITIONAL CAPITAL APPRECIATION			
Private Equity & Placements	15.0%	12.0%	8.0%
Liquid Alternatives	7.5%	5.0%	2.5%

Source: Fiera Capital, as of March 29, 2024.

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Current Strategy[1]

TRADITIONAL AND NON-TRADITIONAL PORTFOLIOS

	MINIMUM	BENCHMARK	MAXIMUM	STRATEGY	+/-
TRADITIONAL INCOME	**0.0%**	**17.5%**	**40.0%**	**7.5%**	**-10.0%**
Money Market	0.0%	0.0%	40.0%	7.5%	+7.5%
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%**	**37.5%**	**0.0%**
U.S. Equity	0.0%	20.0%	40.0%	20.0%	0.0%
International Equity	0.0%	12.5%	20.0%	7.5%	-5.0%
Emerging Market Equity	0.0%	5.0%	20.0%	10.0%	+5.0%
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 March 29, 2024.

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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