Fiera Capital Global Asset Allocation

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After a stellar first quarter performance, the second quarter got off to a softer start as unrelenting economic strength and persistent inflationary pressures in the United States fueled concerns the Federal Reserve will need to keep interest rates higher for longer. That dashed hopes for early and aggressive monetary policy easing and sent bond yields soaring higher – which weighed on both stock and bond market valuations in April.

FINANCIAL MARKET DASHBOARD

	APRIL 30, 2024	APRIL	YTD	1 YEAR
EQUITY MARKETS	% PRICE CHANGE (LC)			
S&P 500	5036	-4.16%	5.57%	20.78%
S&P/TSX	21715	-2.04%	3.61%	5.22%
MSCI EAFE	2281	-2.83%	1.98%	6.38%
MSCI EM	1046	0.53%	2.17%	7.05%
FIXED INCOME (%)	BASIS POINT CHANGE			
U.S. 10 Year Treasury Yield	4.68	48.0	80.1	125.8
U.S. 2 Year Treasury Yield	5.04	41.5	78.5	102.9
U.S. Corp BBB Spread	1.25	-3.0	-9.0	-56.0
U.S. Corp High Yield Spread	3.44	-2.0	-27.0	-162.0
CURRENCIES	% PRICE CHANGE			
EUR/USD	1.07	-1.14%	-3.38%	-3.20%
CAD/USD	0.73	-1.72%	-3.88%	-1.64%
USD/JPY	157.80	4.24%	11.88%	15.77%
COMMODITIES	% PRICE CHANGE			
WTI Oil (USD/bbl)	81.93	-1.49%	14.35%	6.71%
Copper (USD/pound)	4.56	13.91%	17.32%	17.95%
Gold (USD/oz)	2302.90	3.86%	11.15%	15.20%

Source: Bloomberg, as of April 30, 2024.

After five straight months of gains, global stock markets retreated in April. The MSCI ACWI index lost -3.4%. The S&P 500 (-4.2%) fell back from its all-time high, while the S&P/TSX (-2.0%) also slipped – albeit less-so given positive performance in the heavyweight energy (+1.1%) and materials (+5.9%) sectors. Elsewhere, the MSCI EAFE fell by 2.8%, while the MSCI gauge of emerging market stocks managed to eke out a positive (+0.5%) monthly gain – with Chinese stocks (+6.5%) rebounding on optimism that the world's second largest economy is stabilizing.

Fixed income markets also generated negative results last month. Treasury yields pushed higher following hotter-than-expected inflation releases in the United States that added to evidence the Federal Reserve will begin easing later than previously thought. The 10-year treasury yield rose 48 basis points to 4.68%, while the policy-sensitive 2-year yield backed-up by 42 basis points to 5.04%. Despite softer growth and inflation data in Canada, government bond yields followed the gravitational pull of the treasury market. The 10-year government bond yield rose 35 basis points to 3.82%, while the 2-year yield rose by 17 basis points to 4.35%. For the month, the Barclays US Aggregate Bond Index fell -2.5%, while the FTSE Canada Bond Universe shed -2.0%.

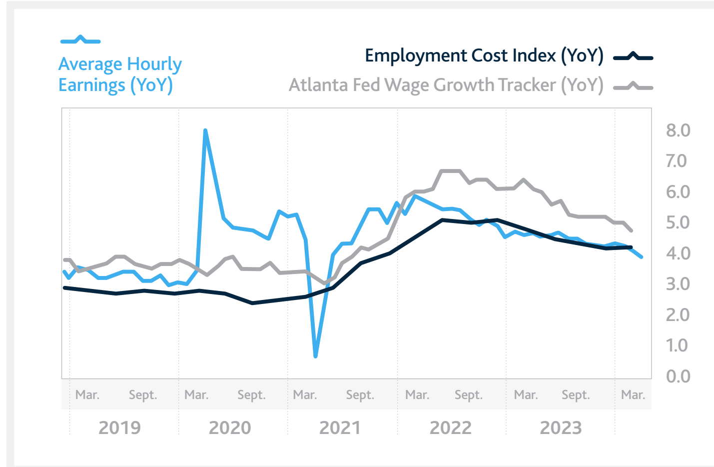
The US dollar (DXY) notched a fourth straight monthly gain (+1.7%) as investors scaled back their expectations for rate cuts from the Federal Reserve, while ebbing risk appetite also boosted demand for the safe haven currency. All major currencies declined versus a broadly stronger greenback, with the euro (-1.1%), pound (-1.0%), yen (-4.1%), and Canadian dollar (-1.7%) all depreciating last month.

After surging to the highest level since October following Iran's unprecedented attack on Israel, oil edged lower towards the end of the month as discussions on a possible cease-fire in the Middle East reduced the risk premium for crude. By contrast, gold posted a third straight monthly gain and breached a new all-time high amid strong demand from central banks and elevated geopolitical tensions that spurred demand for bullion - while copper rallied to a two-year high as a historic squeeze in supplies risked tilting the market into a major deficit amid an expected surge in demand from green industries.

Economic Overview

UNITED STATES

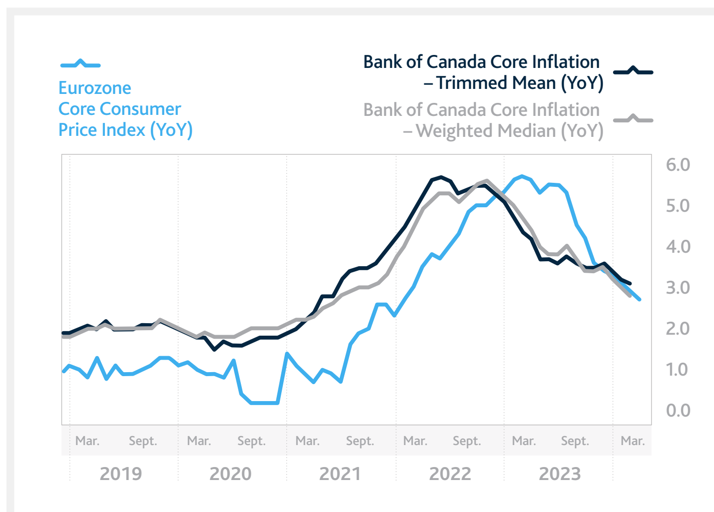
The labor market cooled in April, with nonfarm payrolls rising by 175k – the smallest gain in six months. The unemployment rate ticked up to 3.9%, while average hourly earnings came in at 3.9% y/y – the slowest pace since June 2021. While the softer data will likely come as welcome news for the Federal Reserve, labor market conditions still remain tight. Job gains remain robust, the unemployment rate is low, and job openings (while declining) are still elevated relative to pre-pandemic levels. Meanwhile, labor costs that are closely monitored by the Federal Reserve accelerated in the first quarter, with the employment cost index accelerating to 1.2% – the most in a year. It is unlikely that inflation eases in a way that would give policymakers enough confidence that it's on sustainable path back to 2% until sometime in the second half of the year. Indeed, Chair Powell noted that wage growth probably needs to "move down incrementally" for policymakers to meet their inflation objective.



Source: Bloomberg, as of April 30, 2024.

GLOBAL

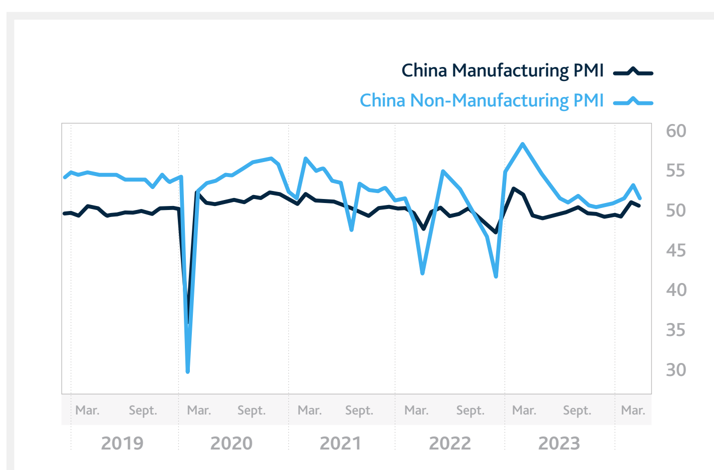
The disinflationary impulse has been much more profound across Canada and Europe versus the United States – which has cemented expectations for easing from the Bank of Canada and the European Central Bank as early as this summer. In Canada, disinflation appears to be taking deeper root. The consumer price index (CPI) surprised to the downside for a third straight month in March – while the average of the Bank of Canada's preferred measures of underlying "core" inflation slowed to 2.95% on an annual basis. Even better news was that the shorter-term three-month moving average of that rate fell to an annualized pace of 1.3% from 2.3% prior – which signals that the downtrend in pricing pressures is intensifying. Similarly in Europe, consumer prices rose 2.4% y/y in April. Excluding food and energy, the core CPI decelerated to 2.7% y/y from 2.9% y/y. Encouragingly, after five straight months of holding firm at 4.0% y/y, services inflation also eased to 3.7% y/y in April.



Source: Bloomberg, as of April 30, 2024.

EMERGING

In China, GDP growth accelerated to 5.3% y/y in the first quarter, thanks to accelerating industrial production and a recovery in the service sector. However, much of the bounce came in the first two months of the year, while the data releases for March were less robust and suggest that momentum weakened at the end of the first quarter. That has cast doubts about the sustainably of the first quarter pickup. Specifically, both industrial production and retail sales growth disappointed in March. And while fixed asset investment accelerated, that was driven entirely by public (not private) investment. The purchasing manager indices (PMI) corroborated this narrative and showed little evidence of a sustainable recovery in April. Factory activity cooled, while non-manufacturing activity saw a steeper decline, with notable weakness in the services sector. That was partially offset by a rise in construction activity – though that was driven by strong infrastructure activity spurred by government investment.



Source: Bloomberg, as of April 30, 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	APRIL 30, 2024	SOFT LANDING	INFLATION REVIVAL	SHALLOW RECESSION
PROBABILITY		50%	30%	20%
GDP GROWTH				
Global	3.00%	3.50%	4.00%	2.00%
U.S.	2.00%	1.50%	2.50%	-0.50%
U.S. Output Gap	1.00%	0.50%	1.00%	-1.50%
Canada	1.35%	1.00%	2.00%	-1.00%
INFLATION (HEADLINE Y/Y)				
U.S.	3.50%	2.50%	3.25%	2.00%
Canada	2.90%	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	4.68%	4.25%	5.00%	3.50%
Canada Government	3.82%	3.75%	4.50%	3.00%
PROFIT ESTIMATES (12 MONTHS FORWARD)				
U.S.	253	260	240	215
Canada	1467	1600	1550	1400
EAFE	155	160	155	135
EM	83	85	72	65
P/E (12 MONTHS FORWARD)				
U.S.	19.9X	22.5X	17.5X	18.0X
Canada	14.8X	15.5X	13.5X	13.0X
EAFE	14.7X	16.0X	14.0X	13.0X
EM	12.6X	15.0X	13.0X	12.0X
CURRENCIES				
EUR/USD	1.07	1.08	1.05	1.00
CAD/USD	0.73	0.80	0.75	0.70
COMMODITIES				
Oil (WTI, USD/barrel)	81.93	85.00	95.00	70.00
Gold (USD/oz)	2302.90	2200.00	1900.00	2300.00

Source: Fiera Capital, as of April 30, 2024.

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. General Market projections 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 results could vary substantially. 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	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	2.5%	-0.3%	6.4%
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	16.2%	-16.6%	-23.1%
International Equity	12.3%	-4.8%	-23.0%
Emerging Market Equity	21.9%	-10.5%	-25.4%
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 April 30, 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 April 30, 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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