

Fiera Capital Global Asset Allocation

Monthly Update: July 2024



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The first half of 2024 wrapped up on a solid note, as investor hopes for a so-called “soft landing” catalyzed a market rally that sent many global indices to new record highs. In a welcome development for both the Federal Reserve and investors alike, recent data revealed that the disinflation process in the United States resumed after stalling-out earlier this year – keeping alive the prospect for a Federal Reserve rate cut later this year.

FINANCIAL MARKET DASHBOARD				
	JUNE 28, 2024	JUNE	YTD	1 YEAR
EQUITY MARKETS		% PRICE CHANGE (LC)		
S&P 500	5460	3.47%	14.48%	22.70%
S&P/TSX	21876	-1.77%	4.38%	8.54%
MSCI EAFE	2315	-1.74%	3.51%	8.58%
MSCI EM	1086	3.55%	6.11%	9.78%
FIXED INCOME (%)		BASIS POINT CHANGE		
U.S. 10 Year Treasury Yield	4.40	-10.2	51.7	55.9
U.S. 2 Year Treasury Yield	4.75	-11.9	50.4	-14.2
U.S. Corp BBB Spread	1.28	7.0	-6.0	-42.0
U.S. Corp High Yield Spread	3.51	1.0	-20.0	-115.0
CURRENCIES		% PRICE CHANGE		
EUR/USD	1.07	-1.24%	-2.95%	-1.80%
CAD/USD	0.73	-0.38%	-3.19%	-3.20%
USD/JPY	160.88	2.27%	14.07%	11.48%
COMMODITIES		% PRICE CHANGE		
WTI Oil (USD/bbl)	81.54	5.91%	13.80%	15.43%
Copper (USD/pound)	4.39	-4.60%	12.85%	17.36%
Gold (USD/oz)	2339.60	0.72%	12.93%	21.26%

Global equity markets extended their winning streak in June, with the MSCI All Country World index rising 1.9%. The S&P 500 (+3.5%) led the global charge thanks to the downward move in treasury yields that invigorated the unrelenting rally across the technology space (the Nasdaq jumped 6.2%). The MSCI gauge of emerging market stocks also advanced 3.5%. By contrast, the S&P/TSX (-1.8%) suffered under the weight of underperformance in the heavyweight resources and financials sectors, while the MSCI EAFE shed -1.7%.

Fixed income markets generated positive results last month. Treasury yields edged lower following reports of cooling growth and inflation that saw traders solidify around a Federal Reserve rate cut at the September gathering. The 10-year treasury yield fell 10 basis points to 4.40%, while the policy-sensitive 2-year yield declined by 12 basis points to 4.75%. Similar moves were seen in Canada as investors braced for further monetary easing from the Bank of Canada. For the month, the Barclays US Aggregate Bond Index rose 0.9%, while the FTSE Canada Bond Universe gained 1.1%.

The US dollar (DXY) rose +1.1% on the back of some hawkish-leaning rhetoric from Federal Reserve officials who have cautioned that further evidence that the disinflationary trend is intact will be required before pivoting to cuts. Political angst in Europe also sparked demand for the safe haven currency and weighed on the euro. The greenback strengthened against all of its major peers, with the euro (-1.2%), pound (-0.8%), yen (-2.2%), and Canadian dollar (-0.4%) all retreating last month.

Finally, oil capped a monthly gain, with the market gripped by turmoil in the Middle East that has helped to place a floor under prices. Copper fell to a two-moth low on the back of weak demand prospects from top consumer China – while gold advanced alongside the latest decline in treasury yields that buttressed the appeal of the non-interest-bearing metal.

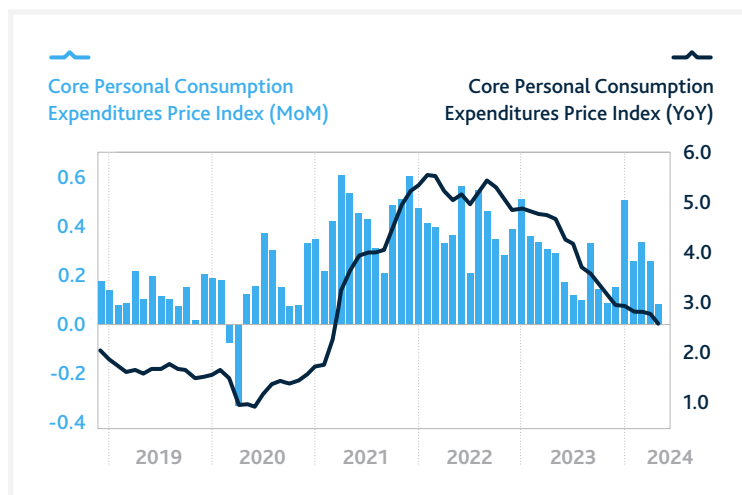
Source: Bloomberg, as of June 28, 2024.



Economic Overview

United States

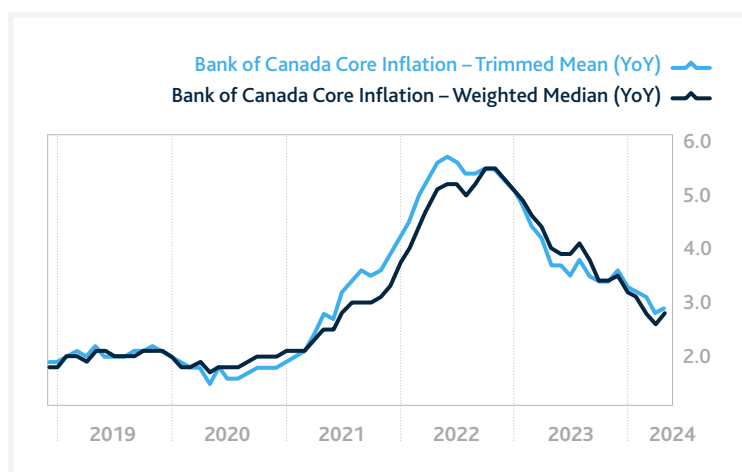
After a lack of further progress towards the Federal Reserve's inflation goal in early 2024, the disinflation process has resumed somewhat, with recent economic and inflation data painting a more promising picture. Of note, the Federal Reserve's preferred measure of underlying inflation decelerated in May. The core personal consumption expenditures (PCE) price index rose just 0.1% m/m in May, marking the smallest advance in six months. From a year ago, the index rose 2.6% – the least since March 2021 and down from 2.8% the month prior. Elsewhere, home sales have slowed, delinquencies have risen, and consumer spending has moderated. Still, while Chair Powell welcomed recent data suggesting that inflation is getting back on a downward path, he reinforced that officials would like to see further evidence of this trend before lowering borrowing costs.



Source: Bloomberg.

Canada

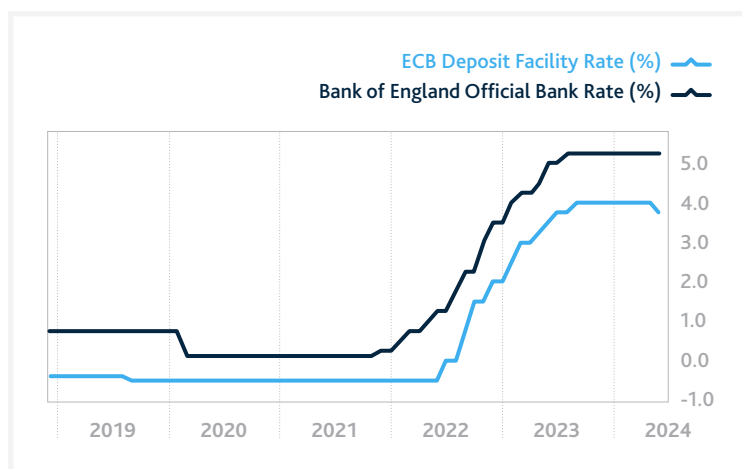
The Bank of Canada delivered a 25 basis point rate cut to 4.75% at the June gathering. The Bank framed the move in response to continued progress on underlying inflation and signaled that this is the first in a series of moves given that policy no longer needs to remain overly restrictive given rising slack (excess supply conditions) in the economy. However, the Bank of Canada's preferred measures of core inflation reaccelerated in May after four straight months of improvement – casting doubt on the possibility of a second straight rate cut in July as policymakers wait to confirm whether the latest setback is temporary. Indeed, Governor Macklem repeated that it is reasonable to expect further policy reduction "if price pressures continue to ease" and that policymakers don't want to lower rates "too quickly" and jeopardize progress on inflation.



Source: Bloomberg.

International

A day after the Bank of Canada led the G7 in reducing rates, the European Central Bank (ECB) followed suit and cut the deposit rate by 25 basis points to 3.75%. However, the central bank stopped short of indicating more will follow given elevated wage growth and the fact that inflation is expected to stay above target well into 2025. Meanwhile, the Bank of England left its benchmark lending rate on hold at a 16-year high of 5.25%. However, the minutes hinted that more policymakers may be close to backing rate cuts – though that hinges on better news on services inflation and wage growth in the coming months. Notably, the panel voted 7-2 in favor of no change for a second consecutive meeting, while even for members in the no-change camp, the minutes said the decision not to cut rates was "finely balanced."



Source: Bloomberg.

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 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. 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. 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. 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.

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.

Forecasts for the Next 12-18 Months



SCENARIOS	JUNE 28, 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%	2.00%	2.50%	-0.50%
U.S. Output Gap	1.00%	0.50%	1.00%	-1.50%
Canada	1.35%	1.50%	2.00%	-1.00%
INFLATION (HEADLINE Y/Y)				
U.S.	3.30%	2.50%	3.25%	2.00%
Canada	2.90%	2.50%	3.25%	2.00%
SHORT-TERM RATES				
Federal Reserve	5.50%	3.50%	4.75%	2.50%
Bank of Canada	4.75%	3.00%	4.25%	2.50%
10-YEAR RATES				
U.S. Government	4.40%	4.00%	5.00%	3.50%
Canada Government	3.50%	3.50%	4.50%	3.00%
PROFIT ESTIMATES (12 MONTHS FORWARD)				
U.S.	260	270	250	215
Canada	1458	1550	1500	1400
EAFE	157	160	150	135
EM	82	85	72	65
P/E (12 MONTHS FORWARD)				
U.S.	21.0X	22.5X	19.5X	17.5X
Canada	15.0X	16.0X	14.0X	13.0X
EAFE	14.8X	16.0X	14.0X	13.0X
EM	13.2X	15.0X	13.0X	12.0X
CURRENCIES				
EUR/USD	1.07	1.08	1.05	1.00
CAD/USD	0.73	0.76	0.78	0.70
COMMODITIES				
Oil (WTI, USD/barrel)	81.54	85.00	95.00	70.00
Gold (USD/oz)	2339.60	2200.00	1900.00	2300.00

Source: Fiera Capital, as of June 28, 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	4.5%	5.1%	4.0%
U.S. Investment Grade Bonds	2.6%	-3.4%	6.1%
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%	-10.7%	-31.1%
International Equity	10.6%	-9.3%	-24.2%
Emerging Market Equity	17.4%	-13.8%	-28.2%
NON-TRADITIONAL CAPITAL APPRECIATION			
Private Equity and Placements	15.0%	12.0%	8.0%
Liquid Alternatives	7.5%	5.0%	2.5%

Source: Fiera Capital, as of June 28, 2024.

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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 June 28, 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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