

Fiera Capital Global Asset Allocation

Monthly Update: August 2024



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In July, both stock and bond markets pushed higher as investors braced for monetary policy easing from major central banks amid signs of cooling growth and inflation. In stock markets, however, a profound rotation from the high-flying megacap space took hold after earnings results failed to live up to lofty expectations and as traders speculated that the artificial intelligence frenzy had become excessive.

FINANCIAL MARKET DASHBOARD				
	JULY 31, 2024	JULY	YTD	1 YEAR
EQUITY MARKETS		% PRICE CHANGE (LC)		
S&P 500	5522	1.13%	15.78%	20.34%
S&P/TSX	23111	5.65%	10.27%	12.04%
MSCI EAFE	2381	2.89%	6.50%	8.28%
MSCI EM	1085	-0.14%	5.96%	3.62%
FIXED INCOME (%)		BASIS POINT CHANGE		
U.S. 10 Year Treasury Yield	4.03	-36.6	15.1	7.1
U.S. 2 Year Treasury Yield	4.26	-49.6	0.8	-61.9
U.S. Corp BBB Spread	1.27	-1.0	-7.0	-38.0
U.S. Corp High Yield Spread	3.54	3.0	-17.0	-80.0
CURRENCIES		% PRICE CHANGE		
EUR/USD	1.08	1.05%	-1.93%	-1.55%
CAD/USD	0.72	-0.93%	-4.09%	-4.47%
USD/JPY	149.98	-7.30%	6.34%	5.40%
COMMODITIES		% PRICE CHANGE		
WTI Oil (USD/bbl)	77.91	-4.45%	8.74%	-4.76%
Copper (USD/pound)	4.18	-4.87%	7.35%	4.20%
Gold (USD/oz)	2426.50	3.71%	17.12%	23.14%

Source: Bloomberg US Aggregate Bond Index, as of July 31, 2024.

Global equity markets ended the month higher. The S&P 500 eked out a modest (+1.1%) gain. All sectors were positive with the exception of technology and communications. That rotation saw the equal-weighted index jump 4.4%. Meanwhile, the S&P/TSX (+5.6%) outperformed by a wide margin after a second rate cut from the Bank of Canada sent equities soaring. Elsewhere, the MSCI EAFE rose 2.9%, while emerging market stocks posted a small (-0.1%) loss amid weak performance out of China (-2.3%).

Fixed income markets also generated positive results and have erased this year's declines. Traders have fully priced-in the first Federal Reserve rate cut occurring in September, with an additional 2-3 cuts expected by year-end. Treasury yields pushed lower across the curve, with the policy sensitive two-year yield seeing the biggest downward move. Similar bull-steepening moves were seen in Canada after the Bank of Canada signaled its willingness to ease much further amid evidence of a slowing economy and disinflation pressure. Traders are pricing-in another 50 basis points of rate cuts by year-end. For the month, the Barclays US Aggregate Bond Index rose 2.3%, while the FTSE Canada Bond Universe gained 2.4%.

The US dollar (DXY) edged lower (-1.7%) as investors ramped-up their bets on imminent policy easing from the Federal Reserve. The yen saw some notable (+7.3%) strength after the Bank of Japan raised its benchmark interest rate and unveiled plans to halve bond purchases, which saw rate differentials narrow between the US and Japan. The euro (+1.0%) and pound (+1.7%) also strengthened. By contrast, the Canadian dollar retreated, with a dovish-leaning Bank of Canada and the monthly decline in oil prices weighing on the loonie last month.

Finally, both oil (-4.5%) and copper (-4.9%) declined on the back of lackluster economic data out of top-consumer China that was met with an underwhelming policy response – while gold (+3.7%) rallied to a fresh all-time high after the Federal Reserve signaled its inching closer to cutting rates.



Economic Overview

Canada

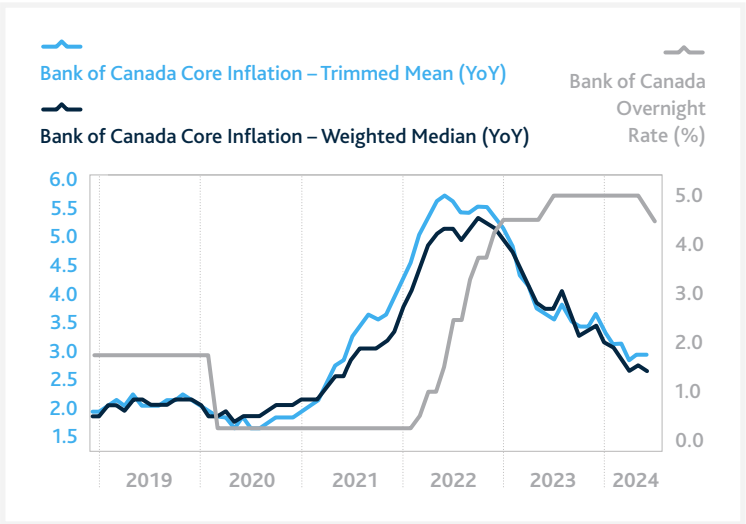
The Bank of Canada delivered its second 25 basis point rate cut to 4.50% at the July gathering and set the stage for further easing this fall. Officials see below-potential growth continuing to cool inflation and said they're spending more time discussing economic headwinds given excess supply in the economy and weak household and labor market conditions. Meanwhile, there was a marked shift in the bank's attitude on inflation. While in June, officials had debated whether more disinflation proof was needed before easing - they are now convinced that they have enough evidence. In July, officials said they've continued to make progress on bringing price pressures to heel and that a return to the 2% inflation target is "in sight." Indeed, Governor Macklem reiterated that it's "reasonable" to expect further rate cuts if inflation continues to ease.

United States

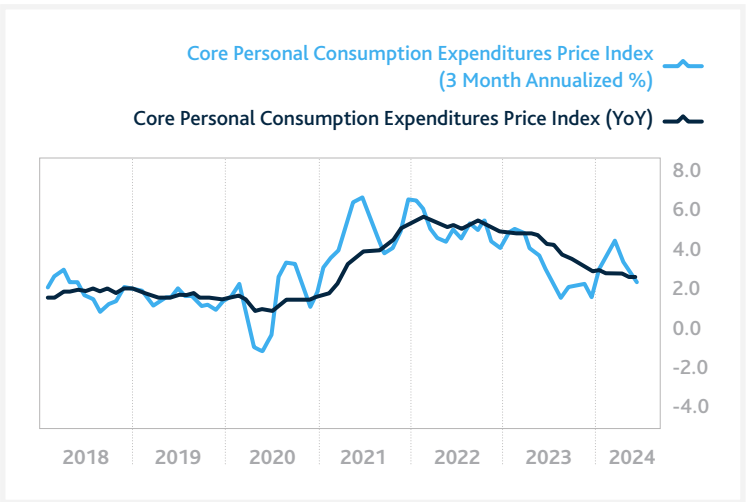
The Federal Reserve voted unanimously to leave rates unchanged in July. However, updated statement language and remarks from Chair Powell suggest that the door is open for a September cut. While characterizing output as expanding at a solid pace, the central bank tempered its assessment of the labor market. Officials also acknowledged progress towards the 2% inflation objective given recent data showing a resumption in the disinflation trend. What's more, officials now appear more attentive to the risks on both sides of their dual mandate. Chair Powell emphasized that theme and argued that the risk of an unexpected inflation pickup has subsided as the labor market has cooled, while downside risks to the labor market "are real now." Still, while emphasizing the need for "greater confidence" in the sustainability of disinflation - he acknowledged that recent data "have added to that confidence."

Emerging

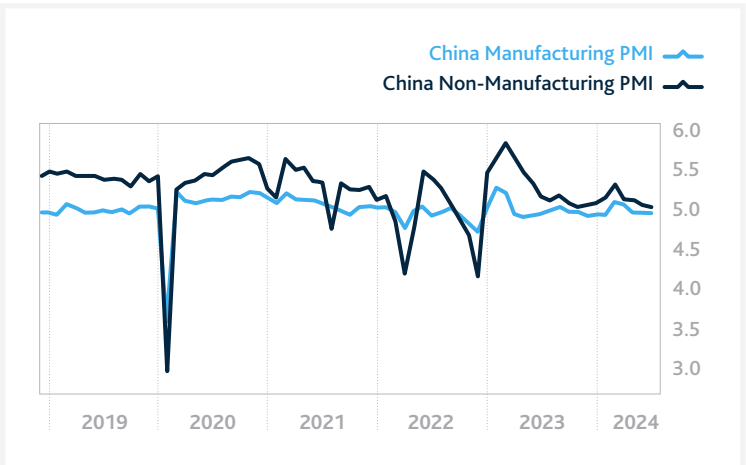
In China, a lackluster economic recovery has been met with an underwhelming policy response. In the second quarter, the world's second largest economy grew at the worst pace in over a year, with weak domestic and external demand weighing on activity. Meanwhile, survey data showed that factory activity contracted for a third straight month in July, while activity in construction and services also fell. In response, the People's Bank of China stepped-up with a surprise string of rate cuts in July - underscoring authorities' growing urgency to support growth. In a further effort to stimulate the economy, the Communist Party's Politburo also vowed to make boosting consumer spending a greater policy focus - though the broad pledges were met with skepticism given the lack of a larger-scale response that is unlikely to boost growth in a meaningful way.



Source: Bloomberg US Aggregate Bond Index, as of July 31, 2024.



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Economic Scenarios



Main Scenario | Soft Landing

Probability 55%

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 25%

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	JULY 31, 2024	SOFT LANDING	INFLATION REVIVAL	SHALLOW RECESSION
PROBABILITY		55%	25%	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.	3.00%	2.50%	3.25%	2.00%
Canada	2.70%	2.50%	3.25%	2.00%
SHORT-TERM RATES				
Federal Reserve	5.50%	3.50%	4.75%	2.50%
Bank of Canada	4.50%	3.00%	4.25%	2.50%
10-YEAR RATES				
U.S. Government	4.03%	4.00%	5.00%	3.50%
Canada Government	3.16%	3.50%	4.50%	3.00%
PROFIT ESTIMATES (12 MONTHS FORWARD)				
U.S.	263	270	250	215
Canada	1481	1550	1500	1400
EAFE	158	160	150	135
EM	83	85	72	65
P/E (12 MONTHS FORWARD)				
U.S.	21.0X	22.5X	19.5X	17.5X
Canada	15.6X	16.0X	14.0X	13.0X
EAFE	15.1X	16.0X	14.0X	13.0X
EM	13.1X	15.0X	13.0X	12.0X
CURRENCIES				
EUR/USD	1.08	1.08	1.05	1.00
CAD/USD	0.72	0.76	0.78	0.70
COMMODITIES				
Oil (WTI, USD/barrel)	77.91	85.00	95.00	70.00
Gold (USD/oz)	2426.50	2200.00	1900.00	2300.00

Source: Fiera Capital, as of July 31, 2024.

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Portfolio Strategy



Matrix of Expected Returns (USD)

SCENARIOS	SOFT LANDING	INFLATION REVIVAL	SHALLOW RECESSION
PROBABILITY	55%	25%	20%
TRADITIONAL INCOME			
Money Market	4.5%	5.1%	4.0%
U.S. Investment Grade Bonds	0.1%	-5.9%	3.6%
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	10.0%	-11.7%	-31.9%
International Equity	7.5%	-11.8%	-26.3%
Emerging Market Equity	17.5%	-13.7%	-28.1%
NON-TRADITIONAL CAPITAL APPRECIATION			
Private Equity	15.0%	12.0%	8.0%

Source: Fiera Capital, as of July 31, 2024.

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Traditional and Non-Traditional Portfolios

	MINIMUM	BENCHMARK	MAXIMUM	STRATEGY	+/-
TRADITIONAL INCOME	0.0%	17.5%	40.0%	2.5%	-15.0%
Money Market	0.0%	0.0%	40.0%	2.5%	+2.5%
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%	42.5%	+5.0%
U.S. Equity	0.0%	20.0%	40.0%	25.0%	+5.0%
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%	15.0%	40.0%	16.5%	+1.5%

Source: Fiera Capital, as of July 31, 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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