

# TACTICAL ASSET ALLOCATION COMMITTEE MONTHLY COMMENTARY

MAY 2020



FIERACAPITAL

In April, sentiment was reinvigorated and risky assets got some much-needed reprieve after the worst meltdown since the global financial crisis. Investors welcomed some tentative signs that the COVID global infection curve may be flattening, which sparked discussions about re-opening the economy. Meanwhile, unprecedented support measures unleashed by both monetary and fiscal authorities also emboldened the risk-on trade and propelled equities higher during the month. At the same time, investors were largely unfazed by the raft of grim economic and corporate earnings results that have revealed the extent of the virus-induced economic destruction. As a result, caution is warranted after the historic rebound given both lofty valuations and the lack of visibility on the path forward.

## FINANCIAL MARKET DASHBOARD

|                           | APRIL 30, 2020 | APRIL                      | YTD     | 1 YEAR  |
|---------------------------|----------------|----------------------------|---------|---------|
| <b>EQUITY MARKETS</b>     |                | <b>% PRICE CHANGE (LC)</b> |         |         |
| S&P 500                   | 2912           | 12.68%                     | -9.85%  | -1.13%  |
| S&P/TSX                   | 14781          | 10.48%                     | -13.38% | -10.86% |
| MSCI EAFE                 | 1658           | 6.29%                      | -18.62% | -13.73% |
| MSCI EM                   | 925            | 9.00%                      | -17.02% | -14.30% |
| <b>FIXED INCOME (%)</b>   |                | <b>BASIS POINT CHANGE</b>  |         |         |
| US 10 Year Bond Yield     | 0.64           | -3.0                       | -127.8  | -186.3  |
| US 2 Year Bond Yield      | 0.20           | -5.0                       | -137.4  | -207.1  |
| US Corp BBB Spread        | 2.18           | -59.0                      | 93.0    | 71.0    |
| US Corp High Yield Spread | 7.43           | -136.0                     | 416.0   | 381.0   |
| <b>CURRENCIES</b>         |                | <b>% PRICE CHANGE</b>      |         |         |
| CAD/USD                   | 0.72           | 0.87%                      | -6.85%  | -3.98%  |
| EUR/USD                   | 1.10           | -0.69%                     | -2.30%  | -2.32%  |
| USD/JPY                   | 107.18         | -0.33%                     | -1.32%  | -3.81%  |
| <b>COMMODITIES</b>        |                | <b>% PRICE CHANGE</b>      |         |         |
| WTI Oil (USD/bbl)         | 18.84          | -8.01%                     | -69.15% | -70.52% |
| Copper (USD/pound)        | 2.35           | 5.66%                      | -15.84% | -18.87% |
| Gold (USD/oz)             | 1694.20        | 7.00%                      | 11.23%  | 31.77%  |

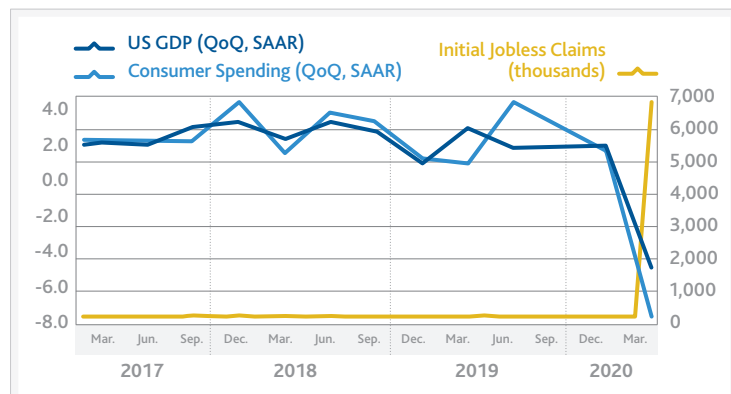
Global equity markets made an impressive comeback in April, with MSCI's gauge of world equities jumping 11% in its best month since 2011. Regionally speaking, gains were widespread across the globe. The S&P 500 led the global charge and ended the month with its biggest monthly gain since 1987. The S&P/TSX followed closely behind as the previously hard-hit resource sectors made a notable rebound during the month. The risk-on mood also spread to overseas markets, with equities in the international developed and emerging market space joining the monthly advance - albeit to a lesser extent.

Despite the improved market mood, fixed income markets posted positive results in April. Bond yields remained well-anchored by the massive influx of stimulus, with major central banks slashing rates to rock-bottom levels and collectively expanding their balance sheets with the intent to ensure that the economic crisis doesn't morph into a financial meltdown. Meanwhile, credit markets recovered some lost ground as investors sought out the higher yields available in the corporate space, while assertive measures from central banks to support the credit markets saw spreads narrow considerably during the month.

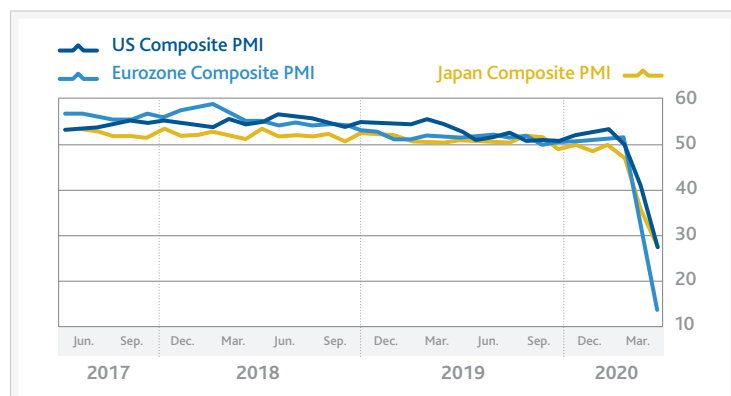
The US dollar fluctuated and ended the month virtually unchanged. While the revival in risk appetite reduced the appeal of the greenback as a haven, this came up against some dire economic results that revealed the extent of the virus-related damage to the global economy. Performance was mixed versus its major trading partners. The Canadian dollar was surprisingly resilient even as crude prices swung wildly throughout the month, while the pound and Japanese yen also gained. In contrast, the euro slipped on relatively weaker eurozone economic data and as European Union leaders failed to make any notable progress on a longer-term recovery plan, while emerging market currencies also slid lower.

Crude markets had an erratic month as investors continued to battle a massive supply glut that's been compounded by the severe collapse in demand stemming from COVID-induced quarantines and curbs on global travel. Taken together, these dual forces and an acute lack of storage space lead to a perfect storm that drove prices to historic lows. Meanwhile, copper jumped on expectations the global economy will bounce back from its virus-driven lockdowns, while stimulus measures out of China also stoked the demand outlook for the red metal. Finally, gold gained in April as major central banks aggressively ramped-up measures to stem the damage from the pandemic, which boosted the allure of bullion as a store of value.

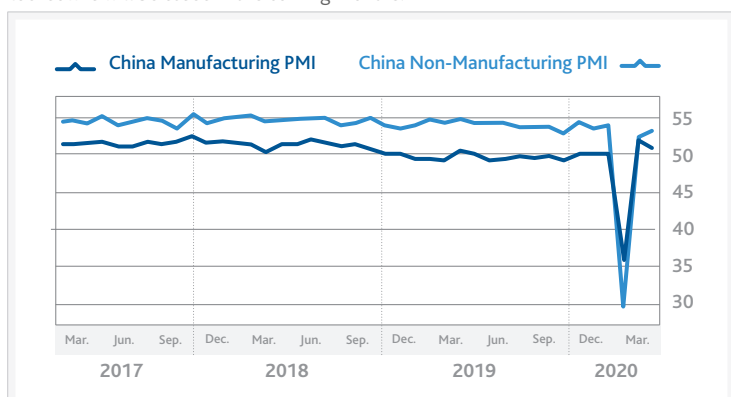
USA



US GDP shrank at a 4.8% annualized rate in the first quarter. The consumer has been hit particularly hard, with spending plummeting a record 7.5% in March alone, while over 20 million Americans have filed for unemployment benefits since the beginning of April. Encouragingly, the government has unleashed nearly \$3 trillion in stimulus to alleviate the pain, while the Federal Reserve has pulled out all the stops to avoid a financial crisis – which when taken together should increase the likelihood of a rebound later this year.



In April, economic activity deteriorated markedly across the US, Eurozone, and Japan – with the composite gauges of manufacturing and services activity plunging to historic lows. While the near-term growth trajectory remains cloudy and devastating at best, expectations for future growth have improved as investors look ahead towards an eventual revival in activity later this year, which has been prompted by recent news that lockdowns will be eased in the coming months.



The China Composite Purchasing Managers Index (PMI) remained firmly in expansion terrain in April, but indicated that the economy is operating on a two-speed track – with a stimulus-fuelled rebound in domestic activity at odds with tepid overseas demand that's complicating China's nascent recovery. The manufacturing gauge eased to 50.8 (led by a plunge in export orders) in April, while in contrast, the non-manufacturing PMI rose to 53.2.

As of April 30, 2020

## USA

The record-long expansion in the US came to an abrupt halt during the first quarter of 2020. The US economy contracted by the most since 2008 as strict countermeasures to stem the COVID spread brought the world's largest economy to a virtual standstill in March. Widespread lockdowns and record job losses have wreaked havoc on the economy's main growth engine – the consumer, with household spending dropping by the most on record in March. The manufacturing space has not been immune, with factory closures roiling an already-fragile sector that's contending with sluggish global demand and supply chain disruptions. As the number of new Covid-19 cases in the US has largely been moving sideways, the economy has progressively begun the process of re-opening – though concerns prevail regarding whether infection rates can fall on a sustained basis as activity resumes.

## INTERNATIONAL

The record drop in the PMI business surveys for April has revealed the depth of the economic destruction across the advanced world. While the deterioration was widespread across both the services and factory sectors, the services space assumed the brunt of the pain as the lockdowns fell much harder on the non-essential services-based economy. The business surveys in the industrialized economies are almost certain to remain weak through May – though the progressive loosening of social distancing restrictions and stay-at-home orders should halt this trend and stoke a revival in activity this summer, while massive monetary and fiscal support (amounting to 22% of global GDP) should also lend some notable support when the economy fires up its engine. However, in the absence of a viable treatment for the coronavirus in the near-term, the highly anticipated re-opening could face some setbacks along the way.

## EMERGING

The COVID crisis pushed China's economy into its first contraction in decades at the beginning of 2020. However, the world's second largest economy has begun to renormalize and is now operating at close to 95% of capacity. Activity data in March remained consistent with an economy in stabilization-mode. While a much narrower decline in industrial production pointed to a strong improvement on the supply-side as factories returned to work, foundering retail sales and investment data underlined persistent weakness on the demand-front as both consumers and businesses remained wary in March. While indeed improving from the nadir in the first two months of the year, softness in retailing and factory data underscores that the recovery will be a slow, uphill battle – particularly as the pandemic has now spread to the industrialized world and clobbered external demand for Chinese goods.



## MAIN SCENARIO

### SUBDUED RECOVERY

PROBABILITY 35%



In this mildly optimistic scenario, an existing medical solution is proven effective in dampening the pandemic over the next quarter and mitigation efforts prove successful in stemming its spread, which brings about a certain degree of confidence that we are regaining control over the propagation of the disease and its potential growth impacts. As a result, economic activity resumes during the third quarter of 2020, albeit at a subdued pace as the psychological shock to both consumers and businesses weighs on confidence and spending intentions, restraining the magnitude of the economic recovery in the coming year.

## SCENARIO 2

### RAPID RECOVERY

PROBABILITY 30%



In the "V-shape" recovery scenario, an existing therapeutic is discovered in the near-term and proves sufficient in gaining control over the proliferation of the coronavirus. As the outbreak recedes, sentiment improves drastically and isolationism and social distancing measures abate in accordance. In turn, economic activity resumes at a rapid pace during the third quarter, with a dramatic snapback in activity during the back half of 2020 as unleashed pent-up demand and the lagged impact of massive monetary and fiscal stimulus amplifies the rebound through the second half of 2020 and into 2021.

## SCENARIO 3

### PROLONGED SLOWDOWN

PROBABILITY 25%



Even if no clear medical solution is found and social distancing guidance remains, confidence prevails that a cure for COVID-19 will be made available sometime in 2021. Tentative signs that strict mitigation efforts are proving successful in containing the contagion spurs a resumption in economic activity this summer. However, the fact that the outbreak hasn't been fully conquered leaves the economy in a vulnerable position and local quarantine efforts are necessary for affected areas. The population remains in lockdown-mode and the steep contraction in the second quarter makes way for virtually no growth into 2021 as heightened levels of fear and anxiety leave consumers and businesses reluctant to spend until a vaccine is made available.

## SCENARIO 4

### PROTRACTED RECESSION

PROBABILITY 10%



Failure to contain the global pandemic or to find a near-term cure morphs into an extended period of global recession and a prolonged bear market in stocks. In this calamitous scenario, virus mitigation efforts from governments that include quarantines, work stoppages, and restricted mobility fuels a steep contraction in global economic activity. These factors become self-fulfilling in that the loss of business revenues and potential for corporate bankruptcies results in job losses that further dampen spending intentions and economic activity well beyond the lifespan of the epidemic.


**FORECASTS FOR THE NEXT 12 MONTHS**

| SCENARIOS                                   | APRIL 30, 2020 | SUBDUED<br>RECOVERY | RAPID<br>RECOVERY | PROLONGED<br>SLOWDOWN | PROTRACTED<br>RECESSION |
|---------------------------------------------|----------------|---------------------|-------------------|-----------------------|-------------------------|
| PROBABILITY                                 |                | 35%                 | 30%               | 25%                   | 10%                     |
| <b>GDP GROWTH 2020</b>                      |                |                     |                   |                       |                         |
| Global                                      | 1.00%          | -2.00%              | 2.00%             | -3.00%                | -10.00%                 |
| U.S.                                        | 0.30%          | -2.00%              | 0.00%             | -4.00%                | -10.00%                 |
| <b>GDP GROWTH 2021</b>                      |                |                     |                   |                       |                         |
| Global                                      | 1.00%          | 2.50%               | 4.50%             | 1.00%                 | -5.00%                  |
| U.S.                                        | 0.30%          | 2.00%               | 4.00%             | 0.00%                 | -5.00%                  |
| <b>INFLATION (HEADLINE Y/Y)</b>             |                |                     |                   |                       |                         |
| U.S.                                        | 1.50%          | 0.00%               | 1.00%             | -1.00%                | -2.00%                  |
| <b>U.S. RATES</b>                           |                |                     |                   |                       |                         |
| Fed Funds                                   | 0.25%          | 0.25%               | 0.25%             | 0.25%                 | 0.00%                   |
| 10-Year Treasuries                          | 0.64%          | 1.00%               | 1.40%             | 0.60%                 | 0.40%                   |
| 30-Year Treasuries                          | 1.28%          | 1.70%               | 2.20%             | 1.25%                 | 1.00%                   |
| <b>PROFIT ESTIMATES (12 MONTHS FORWARD)</b> |                |                     |                   |                       |                         |
| S&P 500                                     | 152            | 140                 | 150               | 105                   | 85                      |
| MSCI EAFE                                   | 167            | 95                  | 105               | 75                    | 60                      |
| MSCI EM                                     | 68             | 55                  | 65                | 45                    | 35                      |
| <b>P/E (FORWARD 12 MONTHS)</b>              |                |                     |                   |                       |                         |
| S&P 500                                     | 20.2X          | 20.0X               | 21.0X             | 16.0X                 | 15.0X                   |
| MSCI EAFE                                   | 9.9X           | 18.0X               | 19.0X             | 14.0X                 | 13.0X                   |
| MSCI EM                                     | 13.6X          | 16.0X               | 17.0X             | 13.0X                 | 12.0X                   |
| <b>CURRENCIES</b>                           |                |                     |                   |                       |                         |
| EUR/USD                                     | 1.10           | 1.10                | 1.14              | 1.00                  | 0.90                    |
| USD/JPY                                     | 107.18         | 104.00              | 115.00            | 100.00                | 90.00                   |
| GBP/USD                                     | 1.26           | 1.25                | 1.40              | 1.10                  | 1.05                    |
| CAD/USD                                     | 0.72           | 0.72                | 0.75              | 0.65                  | 0.62                    |
| <b>COMMODITIES</b>                          |                |                     |                   |                       |                         |
| Oil (WTI, USD/barrel)                       | 18.84          | 30.00               | 35.00             | 20.00                 | 15.00                   |

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.



**MATRIX OF EXPECTED ANNUAL RETURNS (USD)**

| SCENARIOS              | SUBDUED RECOVERY | RAPID RECOVERY | PROLONGED SLOWDOWN | PROTRACTED RECESSION |
|------------------------|------------------|----------------|--------------------|----------------------|
| PROBABILITY            | 35%              | 30%            | 25%                | 10%                  |
| US Money Market        | 0.3%             | 0.3%           | 0.3%               | 0.1%                 |
| US Bonds               | -2.0%            | -4.7%          | 0.0%               | 1.3%                 |
| US Equity              | -3.9%            | 8.2%           | -42.3%             | -56.2%               |
| International Equity   | 3.2%             | 20.3%          | -36.7%             | -52.9%               |
| Emerging Market Equity | -4.9%            | 19.5%          | -36.8%             | -54.6%               |

**CURRENT STRATEGY<sup>1</sup>**

|                                  | MINIMUM | BENCHMARK | MAXIMUM | STRATEGY | ALLOCATION | RELATIVE |
|----------------------------------|---------|-----------|---------|----------|------------|----------|
| CASH                             | 0.0%    | 5.0%      | 25.0%   | Neutral  | 5.0%       | 0.0%     |
| TRADITIONAL INCOME               | 5.0%    | 30.0%     | 85.0%   | Neutral  | 30.0%      | 0.0%     |
| TRADITIONAL CAPITAL APPRECIATION | 15.0%   | 65.0%     | 95.0%   | Neutral  | 65.0%      | 0.0%     |
| US Equity                        | 10.0%   | 35.0%     | 60.0%   | Neutral  | 35.0%      | 0.0%     |
| International Equity             | 5.0%    | 25.0%     | 40.0%   | Neutral  | 25.0%      | 0.0%     |
| Emerging Market Equity           | 0.0%    | 5.0%      | 25.0%   | Neutral  | 5.0%       | 0.0%     |

<sup>1</sup> 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. Discussions regarding potential future events and their impact on the markets are based solely on historic 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.



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# TACTICAL ASSET ALLOCATION COMMITTEE MONTHLY COMMENTARY



FIERA CAPITAL

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The S&P 500 Index (SPX) is a stock market index made up of approximately 500 US large cap stocks. The index comprises a collection of stocks of 500 leading companies and captures 80% coverage of available market capitalization.

The S&P/TSX composite index is the Canadian equivalent to the S&P 500 market index in the United States. The S&P/TSX Composite Index contains stocks of the largest companies on the Toronto Stock Exchange (TSX). The index is calculated by Standard and Poor's, and contains both common stock and income trust units.

The Morgan Stanley Capital International ("MSCI") EM Index is a stock market index that consists of the following 23 emerging market country indexes: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Greece, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Peru, Philippines, Poland, Qatar, Russia, South Africa, Taiwan, Thailand, Turkey and United Arab Emirates. The Morgan Stanley Capital International

("MSCI") EAFE Index is a stock market index made up of approximately 909 constituents. It is often used as a common benchmark for international stock funds. The index comprises the MSCI country indexes capturing large and mid-cap equities across developed markets in Europe, Australasia and the Far East, excluding the U.S. and Canada. US GDP (QoQ, SAAR) is the total monetary or market value of all the finished goods and services produced within a country's borders Quarter over Quarter.

Consumer Spending (QoQ, SAAR) is the total money spent on final goods and services by individuals and households for personal use and enjoyment in an economy. Contemporary measures of consumer spending include all private purchases of durable goods, nondurable goods, and services.

Initial Jobless claims (thousands) are an employment report that measures the number of new jobless claims filed by individuals seeking to receive unemployment benefits. The report, published since 1967, also shows how many unemployed individuals qualify for and are receiving benefits under unemployment insurance.

US Composite PMI, Eurozone Composite PMI, Japan Composite PMI - The composite Purchasing Managers' Index (PMI) is an indicator of economic health for manufacturing and service sectors. The purpose of the PMI is to provide information about current business conditions to company decision makers, analysts and purchasing managers. Each country PMI survey for the manufacturing or service sector is based on questionnaire responses from panels of senior purchasing executives (or similar) at over 400 companies. The composite PMI is a number from 0 to 100. A PMI above 50 represents an expansion when compared with the previous month. A PMI reading under 50 represents a contraction, and a reading at 50 indicates no change.

The China Manufacturing Purchasing Managers Index is based on a survey of around 700 to 800 companies. It is a government-sponsored survey aimed at tracking business conditions in the Chinese manufacturing sector ahead of official economic statistics, while also providing insight into wider economic trends

In China, the Non-Manufacturing purchasing managers index survey is based on data collected from a representative panel of 1200 enterprises from the non-manufacturing sector. The survey includes ten questions on business activity, new orders, new export orders, in hand orders index, stock, intermediate input price, subscription price, employment, supplier delivery time, and business activities expectation. For each question, the diffusion index is calculated.