

# TACTICAL ASSET ALLOCATION COMMITTEE MONTHLY COMMENTARY

AUGUST 2020



FIERACAPITAL

In July, risk appetite was underpinned by further signs of a revival in global growth, the solid start to second quarter earnings season, and the abundance of fiscal and monetary stimulus – which when taken together overshadowed pessimism regarding the latest resurgence in Covid-19 cases. Encouragingly, European Union leaders approved a historic EUR750 billion crisis package in July, while US lawmakers are currently debating another \$1 trillion in fiscal support to guide the world's largest economy back to health. Meanwhile, positive developments on the medical front also emboldened sentiment, with US infectious disease expert Anthony Fauci saying that its “reasonable” to expect a safe and effective vaccine by year-end.

FINANCIAL MARKET DASHBOARD				
	JULY 31, 2020	JULY	YTD	1 YEAR
EQUITY MARKETS		% PRICE CHANGE (LC)		
S&P 500	3271	5.51%	1.25%	9.76%
S&P/TSX	16169	4.22%	-5.24%	-1.45%
MSCI EAFE	1820	2.23%	-10.64%	-4.05%
MSCI EM	1079	8.42%	-3.21%	4.04%
FIXED INCOME (%)		BASIS POINT CHANGE		
US 10 Year Bond Yield	0.53	-12.8	-138.9	-148.6
US 2 Year Bond Yield	0.11	-4.3	-146.4	-176.7
US Corp BBB Spread	1.46	-27.0	21.0	6.0
US Corp High Yield Spread	4.84	-135.0	157.0	100.0
CURRENCIES		% PRICE CHANGE		
CAD/USD	0.75	1.22%	-3.14%	-1.64%
EUR/USD	1.18	4.84%	5.04%	6.34%
USD/JPY	105.83	-1.95%	-2.56%	-2.71%
COMMODITIES		% PRICE CHANGE		
WTI Oil (USD/bbl)	40.27	2.55%	-34.05%	-31.26%
Copper (USD/pound)	2.87	5.69%	2.54%	7.58%
Gold (USD/oz)	1962.80	9.01%	28.87%	37.63%

Global equity markets advanced for a fourth straight month in July. The monthly gain helped the S&P 500 to record a small positive return so far in 2020. Second quarter earnings season got off to a healthy start, with over 80% of companies that reported exceeding previously lowered forecasts. Stellar results from the US technology titans boosted the Nasdaq and helped the S&P 500 outperform both the TSX and EAFE in July. However, emerging market equities outperformed their developed market peers as record fiscal and monetary stimulus boosted demand for riskier assets, while the weaker US dollar and a stronger recovery in China also drove developing nation stocks higher.

Fixed income markets also posted positive results. Yield curves bull-flattened as unrelenting appetite for longer-dated bonds drove yields lower. The 10 year treasury yield stumbled as policymakers wrangled over another stimulus package aimed at restoring emergency jobless benefits that expired at month-end, while some high frequency data revealed that the recovery faltered somewhat after several states halted their reopening plans. The Federal Reserve stepped-up and vowed to do whatever it takes to support the recovery, which added to the downside pressure in bond yields throughout the month. Meanwhile, the rebound in crude prices and speculation for a reacceleration in global growth prompted a revival in US inflation expectations, which drove real rates to new lows.

The greenback slid by the most in a decade in July amid declining treasury rates, record-low real yields, and buoyant risk appetite. The euro advanced to the highest level since May 2018 following the approval of the European Union's rescue plan, while the pound recouped its COVID-induced losses and posted its biggest monthly gain since 2009. The Japanese yen strengthened as its appeal as a haven grew, while the widespread move out of the US dollar and the latest rally in crude prices boosted the Canadian dollar.

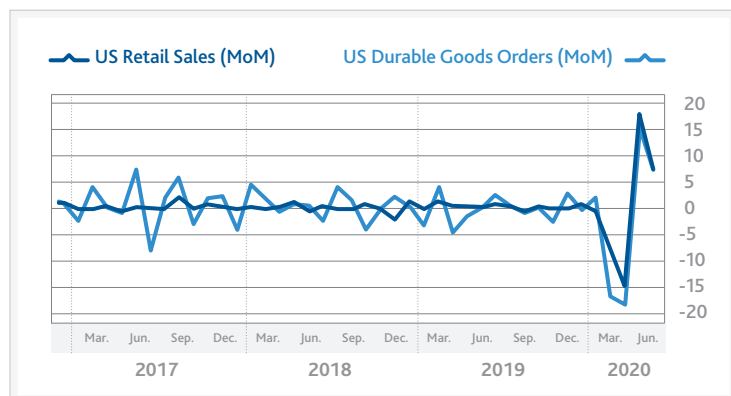
US dollar softness was a tailwind for the broad commodity spectrum in July. Gold thrived and hit fresh highs as softer dollar conditions and record-low real interest rates underpinned prices, while oil managed to hold above \$40/barrel ahead of OPEC+ plans to return some supply to the market. Copper gained after Chinese factory data revealed ongoing momentum in the recovery for the world's largest consumer of the red metal, while stockpiles saw the biggest monthly drop since 2009 thanks to a revival in demand from both Asia and Europe.

USA

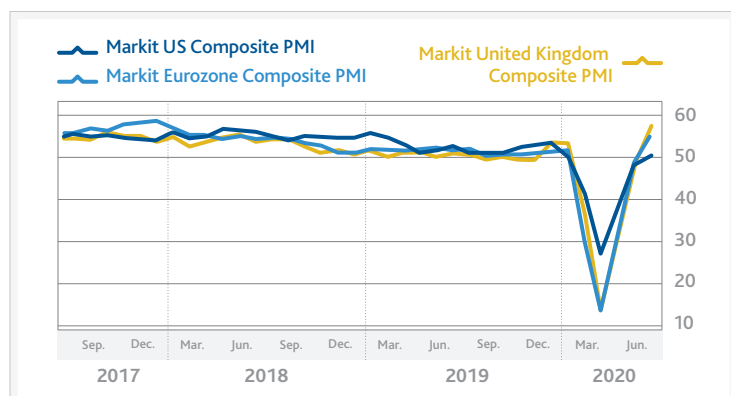
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After a record-breaking contraction in the second quarter, the US economy is regaining some notable ground. Approximately one-third of the 22 million plunge in payrolls have been recouped and unemployment has declined, durable goods orders have stabilized, and retail sales have recovered back to their pre-pandemic levels after outsized gains in May and June.



Developed economies are following China's lead in the post-pandemic recovery. The composite index of manufacturing and services activity for the US, Europe, and the UK improved markedly in July and are now back in expansion terrain. The US composite PMI breached a six-month high, Europe's PMI climbed to its highest level since June 2018, and the UK gauge posted its strongest reading since 2015.



China GDP expanded 3.2% from a year earlier in the second quarter after the 6.8% contraction during the first quarter. Meanwhile, the recovery maintained some momentum heading into the second half of the year, with the Composite PMI holding firm in July. The underlying factory gauge edged higher as global demand for Chinese goods reaccelerated, while the non-manufacturing index remained sturdy as infrastructure spending reignited the construction sector.

## USA

The US economy suffered its sharpest contraction on record in the second quarter, underscoring the extraordinary impact from government-mandated shutdowns and stay-at-home orders that brought the world's largest economy to an abrupt halt. US GDP plunged 32.9% on an annualized basis after the prior period's 5% slide. Personal spending, which makes up about two-thirds of GDP, slumped an annualized 34.6% as the pandemic left millions of Americans out of work. The good news is that the recovery is well underway, with employment, spending, and production all rebounding forcefully since the economy reopened and as massive federal stimulus reached the wallets of American consumers. Indeed, retail sales, nonfarm payrolls, durable goods orders, and housing activity have all bounced back in a V-shaped fashion through May and June.

## INTERNATIONAL

The narrative for a synchronized revival in global growth remains firmly intact as major economies continue to fire up their engines after the economic stoppage earlier this year. The purchasing manager (PMI) surveys for most major developed market economies improved sequentially in July and managed to breach the 50-threshold that divides expansion from contraction. The gains were fairly broad based across both the services and manufacturing sectors, while the advance in the forward-looking surveys of expectations revealed that businesses remain upbeat about their growth prospects in the coming year. Taken together, the revitalization in the global economy and the lagged impact of unprecedented global stimulus measures should bolster both earnings expectations and stock markets alike, with the pro-cyclical and value-oriented space reaping the benefits of the synchronous global economic rebound.

## EMERGING

The Chinese economy bounced back strongly and returned to growth in the second quarter as the successful containment of the coronavirus and an abundance of government support policies emboldened the economic revival. However, the post-COVID recovery has been uneven, with production outpacing consumption. The activity data for June revealed this mixed backdrop. While industrial production accelerated 4.8% y/y, retail sales remained sluggish and declined 1.8% y/y - marking the fifth straight month of contraction as wary consumers remained reluctant to re-engage in spending. Meanwhile, the official gauges of China's economic health continued to demonstrate some notable resilience heading into the second half of the year, with the purchasing manager surveys remaining firmly in expansion territory in July thanks to government-led investment initiatives and a revival in demand from China's major trading partners.

USA



## MAIN SCENARIO

RAPID RECOVERY

PROBABILITY 45%



A therapeutic is discovered in the near-term and proves sufficient in gaining control over the proliferation of the virus. As the outbreak recedes, sentiment improves drastically and isolationism and social distancing measures abate in accordance. In response, factories and services are able to reopen for business in a smooth fashion, while government efforts to bridge the income gap stemming from the economic stop prove successful in alleviating the damage to both businesses and consumers. As a result, economic activity snaps back dramatically at a rapid pace during the third quarter as confidence is restored and pent-up demand is unleashed, while the lagged impact of massive monetary and fiscal stimulus amplifies the rebound through the second half of 2020 and into 2021. As an extended period of robust, above-trend growth ensues, newly announced stimulus measures are unlikely (and unnecessary) in this optimistic scenario.

## SCENARIO 2

SUBDUED RECOVERY

PROBABILITY 30%



Stringent mitigation efforts prove successful in stemming the spread of the pandemic and flattening the global infection curve, which brings about a certain degree of confidence that we are regaining control over the propagation of the disease and its potential growth impacts. At the same time, confidence prevails that a viable medical solution to treat the coronavirus will be made available in the coming year. As a result, economic activity resumes during the third quarter of 2020 as major economies progressively restart their engines, albeit at a slower, more subdued pace. Factories and other workplaces take time to return to full capacity and not every job lost during the crisis is won back. As the virus has not yet been completely eliminated, social distancing behaviours are only partially loosened and lingering health fears prompts some reluctance from consumers and businesses to re-engage fully, which ultimately restrains the magnitude of the economic recovery in the coming year. As the economy will take longer to return to pre-COVID levels under this subdued recovery scenario, monetary and fiscal stimulus is almost certain to remain extremely accommodative and policymakers will refrain from reining in their supportive measures over the 12-18 month time horizon.

## SCENARIO 3

ECONOMIC STAGNATION

PROBABILITY 25%



In this downside scenario, no clear medical solution is discovered and social distancing guidance remains. While strict mitigation efforts ultimately prove successful in containing the contagion and spurs some resumption in economic activity during the summer, the fact that the outbreak hasn't been fully conquered and the risk of a second wave of infections leaves the economy in a vulnerable position, with local quarantine efforts necessary for affected areas. Reopening plans are delayed and even reversed, the population goes back into partial lockdown-mode, and the steep contraction in the second quarter makes way for a stagnant growth environment through 2021 as heightened levels of fear and anxiety leave consumers and businesses hesitant to spend until a vaccine is made available. 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 in the coming 12-18 months. The good news, however, is that the monetary and fiscal impulse will remain firmly in place under this dire economic scenario - which inevitably helps to alleviate the economic damage and reduces the likelihood of this calamitous outcome.

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## FORECASTS FOR THE NEXT 12 MONTHS

SCENARIOS	JULY 31, 2020	RAPID RECOVERY	SUBDUED RECOVERY	ECONOMIC STAGNATION
PROBABILITY		45%	30%	25%
GDP GROWTH 2020				
Global	-4.90%	1.00%	-2.50%	-3.50%
U.S.	-9.50%	-1.00%	-5.50%	-6.50%
GDP GROWTH 2021				
Global	5.40%	5.00%	4.00%	1.00%
U.S.	4.50%	5.00%	4.00%	0.00%
INFLATION (HEADLINE Y/Y)				
U.S.	0.60%	2.00%	0.75%	-1.00%
U.S. RATES				
Fed Funds	0.25%	0.25%	0.25%	0.25%
10-Year Treasuries	0.53%	1.40%	1.00%	0.60%
30-Year Treasuries	1.19%	2.20%	1.70%	1.25%
PROFIT ESTIMATES (12 MONTHS FORWARD)				
S&P 500	143	165	150	105
MSCI EAFE	100	110	95	75
MSCI EM	69	70	60	45
P/E (FORWARD 12 MONTHS)				
S&P 500	21.9X	21.5X	22.0X	16.0X
MSCI EAFE	18.2X	18.0X	19.0X	14.0X
MSCI EM	15.5X	16.0X	17.0X	13.0X
CURRENCIES				
EUR/USD	1.18	1.18	1.10	1.00
USD/JPY	105.83	115.00	104.00	100.00
GBP/USD	1.31	1.40	1.25	1.10
CAD/USD	0.75	0.77	0.74	0.65
COMMODITIES				
Oil (WTI, USD/barrel)	40.27	50.00	40.00	20.00

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.

USA

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## MATRIX OF EXPECTED ANNUAL RETURNS (USD)

SCENARIOS	RAPID RECOVERY	SUBDUED RECOVERY	ECONOMIC STAGNATION
PROBABILITY	45%	30%	25%
US Money Market	0.3%	0.3%	0.3%
US Bonds	-5.3%	-2.6%	-0.6%
US Equity	8.4%	0.9%	-48.6%
International Equity	8.8%	-0.8%	-42.3%
Emerging Market Equity	3.8%	-5.5%	-45.8%

## CURRENT STRATEGY<sup>1</sup>

	MINIMUM	BENCHMARK	MAXIMUM	STRATEGY	ALLOCATION	RELATIVE
CASH	0.0%	5.0%	25.0%	Underweight	0.0%	-5.0%
TRADITIONAL INCOME	5.0%	30.0%	85.0%	Underweight	25.0%	-5.0%
TRADITIONAL CAPITAL APPRECIATION	15.0%	65.0%	95.0%	Overweight	75.0%	+10.0%
US Equity	10.0%	35.0%	60.0%	Overweight	45.0%	+10.0%
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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## PERFORMANCE

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## INDEX DEFINITIONS

Information related to indices and benchmarks has been provided by, and/or is based on third party sources, and although believed to be reliable, has not been independently verified. No representation is made that any benchmark or index is an appropriate measure for comparison. It is not possible to invest directly in an index. Investors pursuing a strategy similar to an index may experience higher or lower returns and will bear the cost of fees and expenses, which will reduce returns. Index results assume the reinvestment of all dividends and capital gains.

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.