

Market Update

Fiera Capital Global Asset Allocation

OCTOBER 2020



The end of the summer brought with it a shift in sentiment. In September, volatility resurfaced as investors weighed a resurgence in global coronavirus cases, the stalemate in negotiations for additional US fiscal stimulus, and looming uncertainty ahead of the US elections – which when taken together sparked some profit-taking after an extended stretch of equity market gains. The good news is that the global economy maintained some notable momentum, with stronger-than-expected economic data revealing a solid recovery taking hold. And at month-end, markets got some relief as US lawmakers appeared to be making progress towards pushing through new stimulus measures in Washington, even as a volatile presidential debate raised concerns about a chaotic election in November.

FINANCIAL MARKET DASHBOARD				
	SEPT. 30, 2020	SEPT.	YTD	1 YEAR
EQUITY MARKETS		% PRICE CHANGE (LC)		
S&P 500	3363	-3.92%	4.09%	12.98%
S&P/TSX	16121	-2.38%	-5.52%	-3.23%
MSCI EAFE	1855	-2.86%	-8.92%	-1.80%
MSCI EM	1082	-1.77%	-2.93%	8.09%
FIXED INCOME (%)		BASIS POINT CHANGE		
US 10 Year Bond Yield	0.68	-2.1	-123.4	-98.1
US 2 Year Bond Yield	0.13	-0.4	-144.2	-149.5
US Corp BBB Spread	1.52	7.0	27.0	5.0
US Corp High Yield Spread	5.08	45.0	181.0	111.0
CURRENCIES		% PRICE CHANGE		
CAD/USD	0.75	-2.05%	-2.48%	-0.61%
EUR/USD	1.17	-1.80%	4.53%	7.54%
USD/JPY	105.48	-0.41%	-2.88%	-2.41%
COMMODITIES		% PRICE CHANGE		
WTI Oil (USD/bbl)	40.22	-5.61%	-34.13%	-25.61%
Copper (USD/pound)	3.03	-0.28%	8.42%	17.61%
Gold (USD/oz)	1887.50	-4.21%	23.92%	28.78%

Global equity markets lost some steam in September and posted their first monthly decline since the pandemic-induced meltdown in March. The tech-heavy S&P 500 and Nasdaq assumed the brunt of the selling pressure and ended their five-month winning streak during the month. The Canadian equity market also declined for the first time since March, albeit more moderately. Looking abroad, international stocks pulled back in the broad exodus from risky asset classes, while emerging market equities also lost some ground but managed to outperform their developed market counterparts as China's economic revival continued to lead the global charge.

Fixed income markets were relatively quiet in September as some conflicting forces saw government bond yields trade in a tight range. Risk aversion set into the marketplace and capped any material upside in bond yields, even despite further signs of global economic improvement and the Federal Reserve's more relaxed stance towards inflation. Meanwhile, credit spreads widened in the environment of diminished appetite for risk, which saw government bonds outperform their corporate peers during the month.

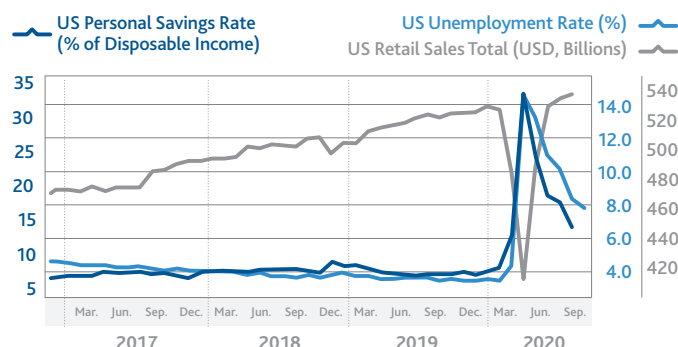
The US dollar reversed course and snapped its five-month losing-streak in September, with turbulent market conditions increasing the appeal of the world's reserve currency. In contrast, the Canadian dollar weakened by the most since March, with the monthly slump in crude prices and broad US dollar strength weighing on the loonie in September. The euro also lost some notable ground, while the pound was pummeled as risks loomed large in the UK, with a rising virus caseload, newly implemented restrictions, mounting job losses ahead of the fiscal cliff, and ongoing Brexit uncertainty making for a worrisome end to the year. Finally, the yuan remained resilient and strengthened to its highest since May 2019 as the Chinese economy continued to lead the global economy out of the Covid-induced doldrums.

Dollar gains fuelled widespread weakness across the commodity spectrum. Gold posted its biggest monthly drop since November 2016 as strength in the greenback eroded the metal's appeal as a safe haven. Crude oil retreated as new virus flareups across major economies brought into question the outlook for global demand. However, crude recovered somewhat and hovered near \$40 at month-end amid optimism over shrinking stockpiles in the US. Finally, copper erased earlier losses and ended the month virtually unchanged after stronger-than-expected US and Chinese factory activity pointed towards robust demand from the top two consumers of the red metal.

Economic Overview

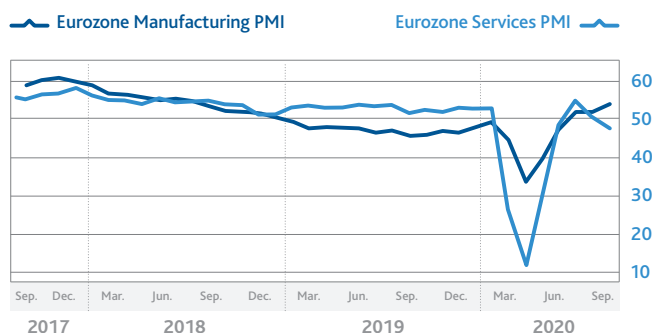
USA

The US economy continues to power forward, even despite the latest spike in virus cases and the lapse in emergency benefits at the end of July. The consumer remains a key pillar of strength, with improved labour market conditions and elevated savings cushioning the blow from fading fiscal support. Indeed, retail sales are back at their pre-Covid levels, while the US economy has recouped over half of the jobs lost during the lockdown earlier this year. Consumers are also feeling more optimistic and confidence rebounded in September by the most in more than 17 years as Americans grew more upbeat about the outlook for the economy, job prospects, and the housing market. Taken together, while the third quarter is shaping up to be a historic one, the outlook for the fourth quarter hinges on renewed government aid to avoid an economic relapse.



INTERNATIONAL

The global economy is stabilizing at reasonably healthy levels after the initial V-shaped bounce, with the plethora of stimulus acting as a pivotal source of support even as the virus proliferates across the globe. The drivers of growth have shifted somewhat, with recent strength driven by the factory sector that's been boosted by the synchronous recovery in global (China) demand. This resilience has counteracted a more tepid revival in the services space that's been roiled by the latest spike in cases and a flood of new restrictions - particularly across Europe. Fortunately, the new wave has not been accompanied by a sharp rise in fatalities. As such, more targeted measures to curb the spread in the high-touch service space are likely versus the full-blown lockdowns seen during the first wave, suggesting that we are unlikely to see the same sort of economic dislocations witnessed earlier in 2020.



EMERGING

The Chinese economy is leading the post-pandemic recovery, with successful containment of the coronavirus and an abundance of policy support emboldening the revitalization in activity. Economic gains are becoming all-encompassing. While the factory sector initially lead the comeback thanks to aggressive stimulus measures aimed at infrastructure spending, the recovery has now widened out more broadly to the consumer, with retail sales moving back into positive terrain for the first time this year. Gauges of business sentiment also suggest that the economy maintained solid momentum in September. The manufacturing Purchasing Managers Index (PMI) increased to 51.5, while the non-manufacturing gauge rose to 55.9, its highest since 2013. Encouragingly, new export orders finally moved back into expansion terrain for the first time since 2019 as trade flows improved, underscoring the unfolding global economic revival at hand.



Economic Scenarios



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.

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.

Forecasts for the next 12 months



SCENARIOS	SEPT. 30, 2020	RAPID RECOVERY	SUBDUED RECOVERY	ECONOMIC STAGNATION
PROBABILITY		45%	30%	25%
GDP GROWTH 2020				
Global	-3.90%	-3.00%	-4.00%	-6.00%
U.S.	-5.00%	-4.00%	-5.50%	-8.00%
GDP GROWTH 2021				
Global	5.10%	6.00%	5.00%	1.00%
U.S.	3.70%	4.50%	4.00%	0.00%
INFLATION (HEADLINE Y/Y)				
U.S.	1.30%	2.00%	0.75%	-1.00%
U.S. RATES				
Fed Funds	0.25%	0.25%	0.25%	0.25%
10-Year Treasuries	0.68%	1.40%	1.00%	0.60%
30-Year Treasuries	1.46%	2.20%	1.70%	1.25%
PROFIT ESTIMATES (12 MONTHS FORWARD)				
S&P 500	156	165	150	105
MSCI EAFE	106	110	95	75
MSCI EM	74	75	60	45
P/E (FORWARD 12 MONTHS)				
S&P 500	21.5X	22.0X	23.0X	16.0X
MSCI EAFE	17.6X	18.0X	19.0X	14.0X
MSCI EM	14.7X	16.0X	17.0X	13.0X
CURRENCIES				
EUR/USD	1.17	1.18	1.10	1.00
USD/JPY	105.48	115.00	104.00	100.00
GBP/USD	1.29	1.40	1.25	1.10
CAD/USD	0.75	0.78	0.74	0.65
COMMODITIES				
Oil (WTI, USD/barrel)	40.22	50.00	40.00	20.00

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Portfolio Strategy



Matrix of Expected Returns

SCENARIOS	RAPID RECOVERY	SUBDUED RECOVERY	ECONOMIC STAGNATION
PROBABILITY	45%	30%	25%
US Money Market	0.3%	0.3%	0.3%
US Bonds	-4.8%	-2.1%	-0.1%
US Equity	7.9%	2.6%	-50.0%
International Equity	6.7%	-2.7%	-43.4%
International Equity	10.9%	-5.7%	-45.9%

Current Strategy¹

	MINIMUM	BENCHMARK	MAXIMUM	STRATEGY	ALLOCATION	RELATIVE
CASH	0.0%	5.0%	25.0%	Underweight	0.0%	-5.0%
TRADITIONAL INCOME	5.0%	30.0%	65.0%	Underweight	25.0%	-5.0%
TRADITIONAL CAPITAL APPRECIATION	15.0%	65.0%	95.0%	Overweight	75.0%	+10.0%
U.S. 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 Markets Equity	0.0%	5.0%	25.0%	Neutral	5.0%	0.0%

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. 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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INDEX DEFINITIONS

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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.

Retail Sales tracks the resale of new and used goods to the general public, for personal or household consumption. This concept is based on the value of goods sold.

The Eurozone Manufacturing Purchasing Managers' Index (PMI) measures the activity level of purchasing managers in the manufacturing sector. National manufacturing data are included for Germany, France, Italy, Spain and the Republic of Ireland. A reading above 50 indicates expansion in the sector; below 50 indicates contraction.

Traders watch these surveys closely as purchasing managers usually have early access to data about their company's performance, which can be a leading indicator of overall economic performance

The Eurozone Services PMI (Purchasing Managers' Index) is based on data collected from a representative panel of around 2,000 private service sector firms. National services data are included for Germany, France, Italy, Spain and the Republic of Ireland. The index tracks variables such as sales, employment, inventories and prices. A reading above 50 indicates that the services sector is generally expanding; below 50 indicates that it is generally declining. This page provides the latest reported value for - Euro Area Services PMI - plus previous releases, historical high and low, short-term forecast and long-term prediction, economic calendar, survey consensus and news.

China Industrial Production (YoY) The industrial production index measures the change in output in Chinese manufacturing, mining, construction, and electricity, gas and water. It includes enterprises with annual sales greater than 5 million yuan, accounting for 70% of total value-added in the Chinese economy.

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

China Retail Sales (YoY) tracks the resale of new and used goods to the general public, for personal or household consumption. This concept is based on the value of goods sold.

China Industrial Production measures the change in output in Chinese manufacturing, mining, construction, and electricity, gas and water. It includes enterprises with annual sales greater than 5 million-yuan, accounting for 70% of total value-added in the Chinese economy. Output refers to the physical quantity of goods produced, unlike sales value, which combines quantity and price. The index covers the production of goods and power for domestic sales in China and for export. It excludes production in the agriculture, transportation, communications, trade, finance, and service industries, government, and imports