

# Market Update

## Fiera Capital Global Asset Allocation

NOVEMBER 2020



In October, investors turned decidedly cautious ahead of the pivotal U.S. election. Meanwhile, the lack of a breakthrough in fiscal stimulus negotiations dampened hopes for near-term support, while some worrisome global COVID trends and the subsequent tightening of restrictions on activity sapped risk appetite and fueled the safe haven bid. At the same time, investors were largely unphased by robust global economic and earnings results that revealed a rapid recovery scenario taking hold, with favourable fundamental trends completely overshadowed by headlines pertaining to U.S. politics and the proliferation of the coronavirus.

FINANCIAL MARKET DASHBOARD				
	OCT. 30, 2020	OCT.	YTD	1 YEAR
EQUITY MARKETS		% PRICE CHANGE (LC)		
S&P 500	3270	-2.77%	1.21%	7.65%
S&P/TSX	15581	-3.35%	-8.69%	-5.48%
MSCI EAFE	1780	-4.06%	-12.61%	-8.97%
MSCI EM	1103	1.98%	-1.00%	5.90%
FIXED INCOME (%)		BASIS POINT CHANGE		
U.S. 10 Year Bond Yield	0.87	19.0	-104.4	-81.7
U.S. 2 Year Bond Yield	0.15	2.6	-141.7	-137.1
U.S. Corp BBB Spread	1.41	-11.0	16.0	2.0
U.S. Corp High Yield Spread	4.91	-17.0	164.0	90.0
CURRENCIES		% PRICE CHANGE		
CAD/USD	0.75	0.01%	-2.47%	-1.17%
EUR/USD	1.16	-0.63%	3.87%	4.44%
USD/JPY	104.66	-0.78%	-3.64%	-3.12%
COMMODITIES		% PRICE CHANGE		
WTI Oil (USD/bbl)	35.79	-11.01%	-41.39%	-33.94%
Copper (USD/pound)	3.05	0.49%	8.96%	15.52%
Gold (USD/oz)	1879.90	-0.40%	23.43%	24.10%

Global equities edged lower for a second straight month in October. Both the S&P 500 and the Nasdaq declined as mega cap technology stocks reversed course after an extended stretch of outperformance. The TSX followed suit and pulled back in the broad retreat from risky assets. European benchmarks posted their worst monthly drop since the depths of the pandemic this spring as soaring virus cases saw governments re-impose more stringent restrictions on activity. However, emerging market equities bucked the global trend and gained as virus trends across China remained well under control, while the world-leading revival in Chinese economic activity also boosted the MSCI gauge of developing market stocks.

Somewhat surprising was that fixed income markets also declined in October even despite the environment of heightened investor angst. Instead, bond markets took their cue from the steady string of healthy global economic results and the prospect for more aggressive fiscal spending in 2021 – regardless of the election outcome. As a result, the yield curve bear-steepened, with the 10 year treasury yield climbing 19 basis points to 0.87% in October, the biggest monthly advance in 2020. Meanwhile, short-term rates remained well-anchored, with central banks reinforcing their pledges to keeping rates pinned lower for an extended period of time. Finally, credit spreads barely budged as risk aversion set-in and actually narrowed throughout the month, leading corporate bonds to outperform their government counterparts.

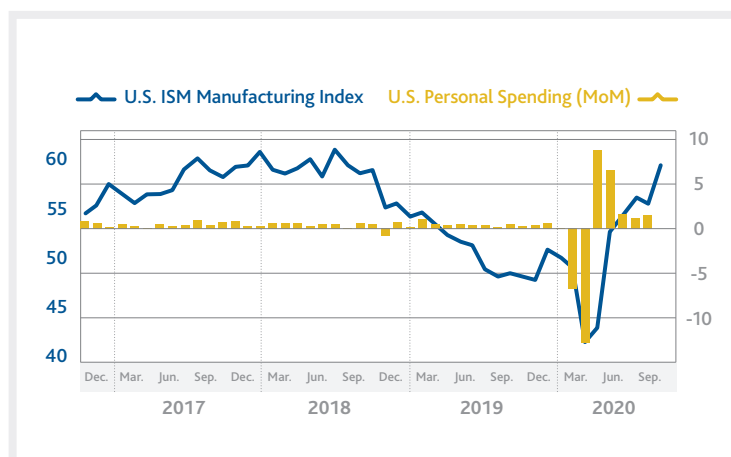
The U.S. dollar was well-bid in October as nervous investors sought-out a haven in the tumultuous financial market environment. In contrast, the euro stumbled as record virus cases and newly-imposed lockdowns weighed. At the same time, the European Central Bank laid the groundwork for further monetary stimulus at the December gathering, which added to the common currency's woes in October. The Japanese yen was the top-performing G10 currency and benefited from safe haven flows, while the Canadian dollar managed to hold firm even despite the sharp retreat in crude prices.

Oil prices were pummelled by the latest COVID trends as renewed countermeasures dampened the outlook for global demand. Indeed, crude gave back most of its summer gains as the latest curbs on activity took hold. Meanwhile, gold failed to provide much of a hedge in the erratic market environment and inched lower as dollar strength weighed on bullion prices. Finally, copper managed to resist the downward pull of risky assets and eked out a seventh straight monthly gain thanks to the impressive growth backdrop in China that has reignited demand for industrial metals, while the potential for supply disruptions from major producers in Chile also buoyed prices throughout the month.

# Economic Overview

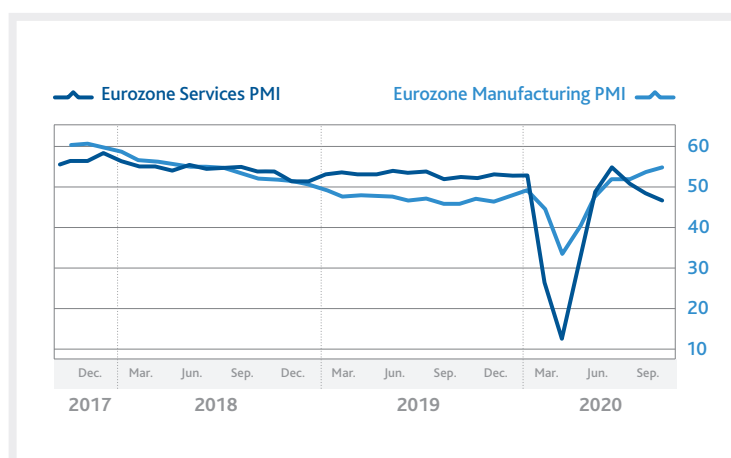
## USA

After a record-breaking recovery in the third quarter, the U.S. economy has maintained some notable momentum early-on in the fourth quarter, despite the resurgence in new virus cases across the nation. Factory activity has strengthened meaningfully, with the closely-monitored ISM manufacturing gauge hitting a two-year high in October. The consumer also remains in healthy shape. September marked the fifth straight month of positive spending growth, which has provided a solid handoff to the fourth quarter. Moreover, jobless claims are pushing lower, the economy continues to add to payrolls, and savings are elevated – which when taken together are providing a cushion to fading fiscal support. In contrast to the latest developments in Europe, there has been less movement towards shuttering the U.S. economy in response to what is now the third wave of the pandemic. Indeed, the U.S. Composite gauge of manufacturing and services activity remains elevated and consistent with above-trend growth in the fourth quarter.



## INTERNATIONAL

The economic revival across Europe has stalled-out after a rapid comeback in the third quarter. European governments have responded to their second, record-breaking wave of COVID infections with a flurry of new restrictions. While not as extreme as those introduced in March, they are still likely to curb growth prospects in the fourth quarter. The Eurozone purchasing managers indices have corroborated this vulnerable landscape and slipped back into contraction terrain in October. However, the decline was predominately attributed to a deterioration in the high-touch services space where newly-imposed restrictions have been concentrated. In contrast, factory activity has remained buoyant in the face of the resurgent pandemic, thanks to solid global (China) demand that's boosting both production and exports. As the U.S. and China do not appear to be following Europe's lead in locking down their respective economies, the world's two largest growth engines will remain a crucial source of global demand going forward.



## EMERGING

The Chinese economy remains a pivotal source of strength and is on track to be the world's only major economy to grow in 2020. Increased demand for Chinese goods has driven the factory rebound, while the nation's control of the outbreak has allowed it to reopen the domestic economy to a wider extent. The activity data for September has reinforced this narrative and indicated that the recovery is broadening out from the supply-side of the economy towards the demand-side, with both industrial production and retail sales growth gaining further ground and accelerating at the end of the third quarter. Meanwhile, business surveys revealed that this momentum continued early-on in the fourth quarter, with the composite gauge of factory and services activity jumping to a multi-year high in October. Importantly, a robust Chinese growth backdrop remains an important cyclical tailwind for the global economic trajectory in the coming year.



# 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	OCT. 30, 2020	RAPID RECOVERY	SUBDUED RECOVERY	ECONOMIC STAGNATION
PROBABILITY		45%	30%	25%
GDP GROWTH 2021				
Global	5.20%	6.00%	5.00%	1.00%
U.S.	3.80%	5.00%	4.00%	0.00%
INFLATION (HEADLINE Y/Y)				
U.S.	1.40%	1.50%	1.00%	0.00%
U.S. RATES				
Fed Funds	0.25%	0.25%	0.25%	0.25%
10-Year Treasuries	0.87%	1.40%	1.00%	0.60%
30-Year Treasuries	1.66%	2.20%	1.70%	1.25%
PROFIT ESTIMATES (12 MONTHS FORWARD)				
S&P 500	161	170	160	105
MSCI EAFE	104	120	110	75
MSCI EM	73	80	70	45
P/E (FORWARD 12 MONTHS)				
S&P 500	20.3X	22.0X	22.0X	16.0X
MSCI EAFE	17.1X	17.0X	17.0X	14.0X
MSCI EM	15.2X	16.5X	16.5X	13.0X
CURRENCIES				
EUR/USD	1.16	1.18	1.10	1.00
USD/JPY	104.66	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)	35.79	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	-3.9%	-1.1%	0.9%
US Equity	14.4%	7.6%	-48.6%
International Equity	14.6%	5.1%	-41.0%
Emerging Market Equity	19.6%	4.7%	-47.0%

## 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%	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%

<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



FIERACAPITAL

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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.

US Personal Spending is measured by the Consumer Price Index (CPI) is a measure that examines the weighted average of prices of a basket of consumer goods and services, such as transportation, food and medical care. It is calculated by taking price changes for each item in the predetermined basket of goods and averaging them. Changes in the CPI are used to assess price changes associated with the cost of living; the CPI is one of the most frequently used statistics for identifying periods of inflation or deflation.

The ISM Manufacturing Index is based on surveys of more than 300 manufacturing firms by the Institute for Supply Management (ISM). The ISM Manufacturing Index monitors employment, production, inventories, new orders and supplier deliveries. A composite diffusion index monitors conditions in national manufacturing and is based on the data from these surveys.

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