GLOBAL ASSET ALLOCATION

2021 OUTLOOK

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FIERA CAPITAL

LOOKING AHEAD TO A BRIGHTER 2021

The global economy continues to heal and has stabilized at reasonably healthy levels, with the sheer abundance of monetary and fiscal stimulus acting as a critical source of support even as the coronavirus continues to circulate across the globe.

Economic gains have been driven by the factory sector that has demonstrated a growing resilience to the pandemic, thanks to the synchronous recovery in global demand and trade flows. Factory strength has counteracted a more tepid revival in the services sector that's been plagued by the latest spike in Covid cases and the flood of new restrictions that have been aimed at the high-touch services space.

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Regionally speaking, solid recoveries across the U.S. and China have overshadowed some vulnerabilities in Europe. The Chinese economy continues to be a key pillar of strength, cementing the nation's status as the only major economy set to grow in 2020. Economic gains are all-encompassing across both the factory and consumer space, while forward-looking business surveys imply that strength is likely to extend into 2021. This vigorous landscape in China remains an important tailwind for the global trajectory in the coming year. Meanwhile, the U.S. economy has held firm even in the face of soaring infections, with relative strength reflecting the lagged impacts of massive fiscal stimulus. The consumer remains a dominant driving force, with job gains and elevated savings cushioning the blow from fading fiscal stimulus - while factory and housing activity are also bright spots. In contrast, the European economy hit a soft patch in the fourth quarter after governments reinstated more stringent lockdowns in response to the second, record-breaking wave of infections across Europe and the U.K. The deterioration has been concentrated in services that have been hit disproportionately by new curbs that have been targeted towards leisure, restaurants, and hospitality. Indeed, the European economy is more closely tied to services and tourism versus the United States.

While it goes without saying that the latest virus trends are worrisome, there are reasons for optimism. The unrelenting backstop from both central banks and governments has been and will continue to be instrumental in guiding the economy back to health. Moreover, the end of the pandemic is now in sight. In November, three vaccine candidates revealed positive results in clinical trials and inoculations began in December. While widespread distribution and vaccination will take some time, there now appears to be a light at the end of the tunnel.

As such, while the recovery may be restrained in the near-term, it won't be derailed and a profound economic revival is almost certain to unfold next year. As populations get inoculated and large parts of the global economy reopen, the powerful revitalization in consumer and business confidence should unleash massive amounts of pent-up demand and set the stage for an impressive rebound in activity in the latter part of 2021.

Encouraging vaccine developments should set the stage for a swift return to normalcy and a rapid recovery in 2021

IMPROVED MACROECONOMIC VISIBILITY

While sentiment could prove vulnerable as investors digest headlines on the global Covid front, the cyclical outlook remains favorable given our expectation for a swift return to normalcy in 2021. Importantly, several lingering headwinds are set to recede as we head into the new year.

On the political front, uncertainty is bound to dissipate. All signs are pointing towards a smooth transition of power to the Biden administration in January, with a more predictable and amicable approach to global trade relations. Meanwhile, expectations are calling for a divided Congress, so the prospect for unfriendly legislation such as higher corporate taxes are likely off the table. Regardless of the election outcome, fiscal spending plans will be put in place. President-elect Joe Biden's cabinet appointments appear to be market-friendly, which has raised the likelihood that further fiscal aid will be approved early in the new year (if not before). Consequently, any near-term hit to growth should prove short-lived. Regarding the coronavirus, the sharp acceleration in new cases is unlikely to persist as both people and governments respond and curves inevitably flatten. Finally, progress continues on the vaccine front and it appears increasingly likely that a good portion of the global population will be vaccinated by the end of 2021.

Given that macroeconomic visibility is set to improve markedly heading into the new year, investor focus is likely to revert back to the lucrative backdrop of strong, above-trend growth and ample liquidity conditions, which should pave the way for further stock market gains through 2021.

INVESTMENT STRATEGY: REFLATIONARY TRADE INTACT

> Taken together, the pace of economic activity is improving, bond yields are forming a bottom, inflation expectations are on the rise, the US dollar is weakening, and commodity prices are pushing higher. In this reflationary environment, it is likely that equities will make new highs.

> As a result, we enter the new year with an overweight allocation to equities, with a preference for the cyclically-biased, value oriented corners of the market where there's still a compelling valuation proposition, in our view. After the narrow, growth (tech)-dominated upswing through most of 2020, we expect market gains to broaden-out in 2021 as the prospect for more visible growth sparks a rotation towards the underappreciated sectors of the market such as financials, industrials, and resources. As these sectors have a larger representation outside of the US, we expect more upside in markets that contain a higher cyclical exposure, such as the Canadian equity market.

> In contrast, we see little value in core fixed income given the low starting point for interest rates. We expect yield curves to steepen in a bond-bearish fashion. Policymakers will keep rates anchored at the short-end of the curve, while our expectation for a stronger economy and the corresponding rise in inflation expectations should place some upward pressure on the long end of the curve. Moreover, the Federal Reserve's newly-announced monetary policy framework suggests that the path of least resistance for longer-term bond yields should be biased higher, with the increased tolerance for higher inflation ultimately placing some modest upward pressure on the long-end. Bond investors could find themselves in a vulnerable position with yields at these depressed levels, increasing the risk of capital loss.

CURRENCY & COMMODITY OUTLOOK

US DOLLAR

The path of least resistance for the greenback remains lower, in our view. The countercyclical nature of the US dollar implies underperformance as the global economy continues to normalize, risk aversion ebbs, and the reflationary trade gains further traction in 2021, as we expect.

CANADIAN DOLLAR

The secular downtrend in the US dollar should ultimately prop up the Canadian dollar, while our expectation for a swift global economic acceleration and corresponding strength across the commodity complex should be key tailwinds for the loonie over the next 12 to 18 months.

OIL

Our expectation for a rapid revival in global growth should reignite demand and help to alleviate the massive glut in the oversupplied market. At the same time, ongoing discipline from OPEC and its allies in keeping output restrained should help markets to find a better balance and place a floor under prices in the coming year.

COPPER

Considered a barometer for global growth, copper should thrive in the environment of stronger, China-led global growth prospects, while soft dollar conditions and a tightening supply backdrop should also bolster prices. The healthy rebound in global factory activity also points towards robust demand for the industrial metal in the next 12 months.

GOLD

While gold could be prone to some periodic setbacks as the economy regains its footing and haven demand recedes, the bullish narrative remains intact. The Federal Reserve's increased tolerance for higher inflation and an extended period of rock-bottom policy rates will keep real yields pinned lower, while a structurally weaker dollar and bullion's appeal as a geopolitical and inflation hedge should also lend some support.

RISKS: ECONOMIC STAGNATION

We are mindful that there are factors that could derail our optimistic outlook. The biggest risk to our base case scenario for a rapid recovery in 2021 is a notable setback on the vaccine front that would ultimately result in a prolonged period of economic stagnation. In this dire scenario, reopening plans would be delayed and even reversed and the population would head back into partial lockdown-mode, which would make 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. The good news, however, is that the latest vaccine developments combined with the unprecedented monetary and fiscal impulse has significantly reduced the likelihood of this calamitous outcome.

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