Fiera Capital Global Asset Allocation

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FIERACAPITAL

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After an extended period of calm, volatility resurfaced in September. In what was an erratic month, mounting fears about slowing global growth, elevated inflation, and regulatory upheavals emanating from China emerged at the same time investors braced for policymakers to wind-down ultra-accommodative monetary policies – which when taken together dampened sentiment and roiled financial markets. In an unprecedented development, both stocks and bonds generated negative results in September, reinforcing the case for private alternatives in a well-balanced portfolio.

FINANCIAL MARKET DASHBOARD

	SEPT. 30, 2021	SEPT.	YTD	1 YEAR
EQUITY MARKETS		% PRICE CHANGE (LC)		
S&P 500	4308	-4.76%	14.68%	28.09%
S&P/TSX	20070	-2.49%	15.13%	24.49%
MSCI EAFE	2281	-3.19%	6.23%	22.96%
MSCI EM	1253	-4.25%	-2.96%	15.81%
FIXED INCOME (%)		BASIS POINT CHANGE		
U.S. 10 Year Treasury Yield	1.49	17.9	57.4	80.3
U.S. 2 Year Treasury Yield	0.28	6.6	15.4	14.9
U.S. Corp BBB Spread	1.07	-2.0	-2.0	-45.0
U.S. Corp High Yield Spread	2.56	2.0	-71.0	-252.0
CURRENCIES		% PRICE CHANGE		
CAD/USD	0.79	-0.53%	0.41%	5.04%
EUR/USD	1.16	-1.94%	-5.21%	-1.20%
USD/JPY	111.29	1.15%	7.79%	5.51%
COMMODITIES		% PRICE CHANGE		
WTI Oil (USD/bbl)	75.03	9.53%	54.64%	86.55%
Copper (USD/pound)	4.10	-6.22%	16.20%	34.84%
Gold (USD/oz)	1755.30	-3.33%	-7.38%	-7.00%

Global equities experienced some turbulence in September, with the MSCI All Country World shedding over 4%. The environment of rising bond yields reignited the rotation in favor of cyclicality and value, with both energy and financial sectors outperforming their defensive-growth peers by a wide margin. Consequently, the growth-heavy S&P 500 led the decline and posted its worst monthly loss since the onset of the pandemic. The value-levered S&P/TSX also edged lower, albeit more modestly as robust performance in the energy space helped to counter widespread underperformance elsewhere. Weakness also extended to overseas markets, with both international developed and emerging market indices posting some notable losses in September.

Fixed income markets also posted negative results, with some hawkish-leaning rhetoric from major central banks sparking a selloff. At the September monetary policy gathering, the Federal Reserve set the stage to begin scaling-back its asset purchases later this year, while officials also brought forward their projections for rate liftoff, with participants now equally split between 2022 and 2023. In response, yield curves steepened in a bearish fashion, with the 10 year treasury yield breaking above key resistance levels and rising 18 basis points to 1.49%, while the 2 year yield rose 7 basis points to 0.28%. Canadian bond markets followed suit, with the 10 year government bond yield soaring 29 basis points to 1.51%, while the 2 year yield advanced 11 basis points to 0.53%. The Canada FTSE TMX bond index declined -1.4%, while the U.S. aggregate bond index lost -0.89%.

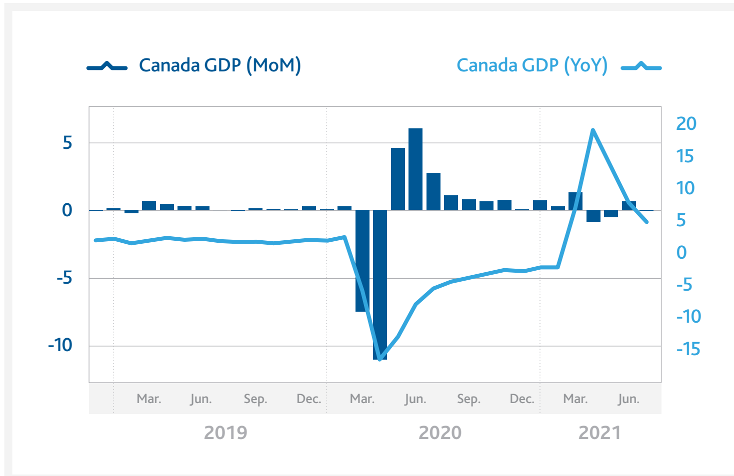
The US dollar rose to a one-year high. The counter-cyclical currency thrived amid September's financial market turmoil, with unnerved investors bidding up the safe haven. The Canadian dollar retreated amid underlying dollar strength, but managed to hold fairly firm around 79 US cents given the powerful rally in crude oil prices that helped to underpin the loonie.

Finally, oil gained close to 10% as an energy shortage from Europe to Asia sent prices soaring to levels not seen since 2018. However, other commodities such as industrial metals and gold stumbled on the back of rising interest rates and a stronger greenback. Specifically, gold posted its biggest monthly loss since June as the prospect for monetary policy normalization sent rates higher and weighed on the non-interest bearing metal. Copper pulled back after China's factory sector contracted for the first time in 19 months, adding to signs of a slowdown in the world's top metal-consuming economy.

Economic Overview

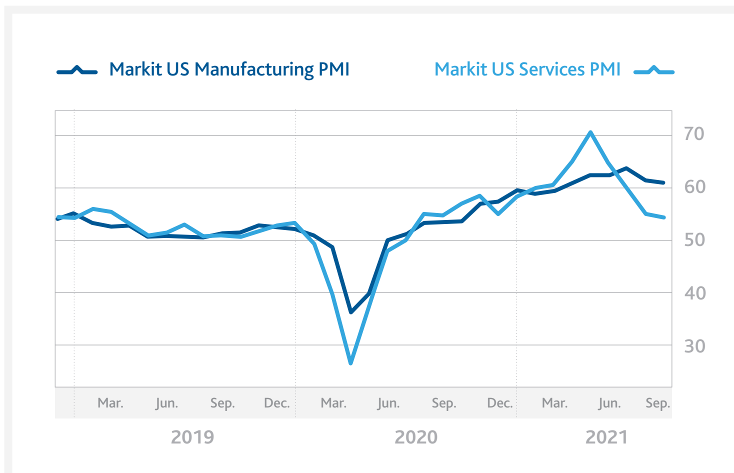
CANADA

The Canadian economy contracted 0.1% m/m in July, better than the preliminary estimate that called for a 0.4% drop. Weakness was primarily a result of developments in the goods-producing space, with agricultural output slumping due to the heat wave in Western Canada. Further declines were reported in manufacturing and construction. By contrast, services-producing industries advanced as coronavirus restrictions were eased, with accommodation and food services output surging by a massive 13% m/m - while arts, entertainment, and recreation GDP jumped by 8.1% m/m. Early indications suggest that the economy showed more signs of life in August, with the Statistics Canada estimate showing a healthy 0.7% rebound. Despite the smaller-than-expected decline in GDP in July and the solid preliminary estimate for August, third quarter GDP growth still looks to be much weaker than the Bank of Canada had predicted, which limits the risk of a hawkish policy turn in the near future.



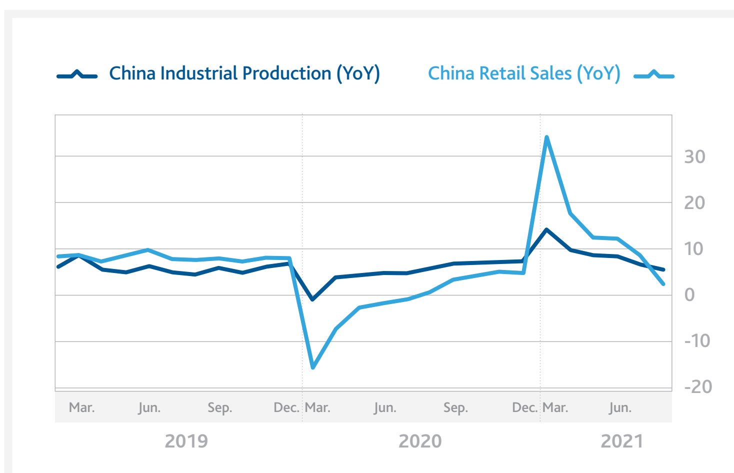
UNITED STATES

After reaching peak growth in the second quarter, the U.S. economy lost some steam throughout the third quarter amid the rapidly spreading Delta variant, a fading fiscal impulse, and lingering capital and labor supply constraints. According to the Markit purchasing manager indices (PMI) for September, activity cooled across both the factory and services space. The slowdown was led by the high-touch services sector, while factories continued their struggle to source enough supplies and labor to meet pent-up demand. Ultimately, many of these headwinds should prove fleeting and the post-pandemic recovery should resume uninterrupted at a strong and above-trend pace. Labor supply should increase and material shortages should ease as COVID-19 infection rates decline, while the services sector should benefit from a normalization of activity once the health threat subsides. Consequently, this constructive outlook saw the Federal Reserve set the stage for a scaling-back of its asset purchases later this year.



EMERGING

The Chinese slowdown intensified, with sporadic COVID outbreaks and localized lockdowns stifling consumption, while supply disruptions and pollution-curtailing environmental policies have curbed factory production. Both industrial production and retail sales softened in August, extending July's weakness. The moderation has been exacerbated by the profound shift in China's socio-political and economic priorities engendered by President Xi Jinping's goal of "common prosperity", with sweeping regulatory reforms and lingering uncertainty around the implementation of these policies weighing on an economy that's already slowing. The September purchasing manager indices (PMI) corroborated this narrative. Activity in the factory sector contracted for the first time since the pandemic began in the latest sign of deceleration, though the services PMI bounced back into expansion terrain after stringent mobility restrictions that hit domestic travel and consumer activities were lifted in September. Still, China's "zero tolerance" COVID policy suggests that risks of further localised lockdowns impacting sentiment remains high.



Economic Scenarios

Main Scenario | Reflationary Recovery

Probability **50%**

Our base case scenario calls for the global economic recovery to extend at an above-trend pace over the next 12 to 18 months, without the fear of a premature monetary policy tightening event. The successful rollout of several safe and effective vaccines and/or treatments ultimately accelerates the return to economic normality. As the wider population gets inoculated and as virus trends improve, both isolationism and social distancing measures abate and sentiment improves drastically. Restrictions are relaxed and the reopening progresses across the larger economy. In response, economic activity snaps back dramatically as pent-up demand is unleashed, particularly given that savings remain extraordinarily elevated across the globe, which amplifies the nascent recovery. Meanwhile, inflation expectations remain well-anchored, which allows policymakers to look through the post-pandemic surge in inflationary pressures and extend their highly-accommodative monetary policy stance. While central bank asset purchases are indeed set to be scaled-down through 2022, the bar for interest rate increases remains higher over this 12-18 month timeframe. Nevertheless, both the Federal Reserve and the Bank of Canada begin the gradual rate normalization process by mid-2023 given that their respective economies will be operating at full potential and output gaps will be closed. Still, the policy transition from extremely stimulative towards a neutral stance occurs progressively over several years, extending the longevity and visibility of the economic cycle.

Scenario 2 | Stagflation

Probability **40%**

A growing risk to our base case scenario is that the world economy turns stagflationary in nature, a toxic combination of slowing global growth and accelerating prices. The "Stagflation" scenario assumes that inflationary pressures shift persistently higher and de-anchors inflation expectations, with global economic prospects subsiding amid the fallout. Specifically, the near-term spike in pricing pressures proves more enduring than expected, and lasts long enough to become embedded in inflation expectations. Supply-chain dislocations take longer to correct, while shortages and subdued participation in the labour force become more long-lasting given lingering health-related fears of returning to work, the structural shift in demographics (ageing populations), or skills mismatches in the post-pandemic reality. The subsequent rise in input costs and the rapid buildup in wages cuts into the profitability of corporations, consumers struggle to maintain their purchasing power, and inflation expectations become de-anchored. In response, policymakers abandon their perceived tolerance for higher inflation and act aggressively to stem the inflationary spiral. This assertive and hawkish-leaning policy adjustment sparks a moderation in global growth to well-below potential levels. The stagnation in global growth occurs concurrently with an acceleration in inflation and tighter monetary policy, creating a tumultuous financial market landscape whereby both equities and bonds experience declines amid a marked deterioration in the macroeconomic landscape.

Scenario 3 | Economic Relapse

Probability **10%**

Another wildcard continues to be the emergence of highly-transmissible Covid-19 variants that have become the dominant strain across much of the globe. Failure to keep the pandemic under control risks a more protracted period of restrictions that delays the return to normal and jeopardizes the imminent recovery. At the same time, vaccine hesitancy in some parts of the world has created a hurdle to reaching herd immunity and fully eradicating Covid-19. As it takes longer to gain control over the propagation of the virus, mitigation efforts from governments and social distancing behaviours linger-on and health fears prompt some reluctance from consumers and businesses to re-engage fully. Meanwhile, the global economy takes longer to reopen fully, while confinement measures are reinstated and fuel a steep contraction in growth. However, the silver lining is that the fragile state of the economy and stubbornly-elevated unemployment ensures that monetary and fiscal policy remain expansionary, which helps to alleviate any permanent damage in this calamitous risk-off scenario.

Forecasts for the Next 12-18 Months

SCENARIOS	SEPTEMBER 30, 2021	REFLATIONARY RECOVERY	STAGFLATION	ECONOMIC RELAPSE
PROBABILITY		50%	40%	10%
GDP GROWTH 2021				
Global	5.90%	6.00%	5.00%	-4.50%
Canada	5.20%	6.00%	5.00%	-5.00%
U.S.	5.90%	7.00%	6.00%	-3.50%
GDP GROWTH 2022				
Global	4.50%	5.00%	3.50%	-4.50%
Canada	4.00%	3.50%	1.50%	-5.00%
U.S.	4.10%	4.50%	1.50%	-3.50%
INFLATION (HEADLINE Y/Y)				
Canada	4.10%	4.00%	3.50%	0.50%
U.S.	5.30%	4.00%	3.50%	0.50%
SHORT-TERM RATES				
Bank of Canada	0.25%	0.25%	1.25%	0.25%
Federal Reserve	0.25%	0.25%	1.25%	0.25%
10-YEAR RATES				
Canada Government	1.51%	3.00%	3.50%	0.50%
U.S. Government	1.49%	3.00%	3.50%	0.50%
PROFIT ESTIMATES (12 MONTHS FORWARD)				
Canada	1300	1250	1150	850
U.S.	213	215	200	150
EAFE	155	155	145	90
EM	95	100	90	55
P/E (FORWARD 12 MONTHS)				
Canada	15.4X	17.5X	16.0X	15.0X
U.S.	20.2X	20.0X	19.5X	16.0X
EAFE	14.7X	15.0X	14.5X	14.0X
EM	13.2X	14.0X	13.0X	12.0X
CURRENCIES				
CAD/USD	0.79	0.90	0.85	0.65
EUR/USD	1.16	1.25	1.15	1.00
USD/JPY	111.29	100.00	105.00	110.00
COMMODITIES				
Oil (WTI, USD/barrel)	75.03	90.00	75.00	35.00
Gold (USD/oz)	1755.30	1800.00	1900.00	2100.00

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.

Portfolio Strategy

Matrix of Expected Returns

SCENARIOS	REFLATIONARY RECOVERY	STAGFLATION	ECONOMIC RELAPSE
PROBABILITY	**50%**	**40%**	**10%**
TRADITIONAL INCOME			
Money Market	0.3%	0.8%	0.3%
Canadian Bonds	-6.5%	-8.7%	7.3%
NON-TRADITIONAL INCOME			
Diversified Credit	8.0%	7.0%	5.0%
Diversified Real Estate	8.0%	7.0%	4.0%
Infrastructure	7.5%	6.5%	5.0%
Agriculture	8.5%	7.5%	6.0%
TRADITIONAL CAPITAL APPRECIATION			
Canadian Equity Large Cap	9.0%	-8.3%	-36.5%
U.S. Equity Large Cap	-12.5%	-16.0%	-32.4%
International Equity	-10.7%	-14.5%	-33.0%
Emerging Market Equity	-2.1%	-13.4%	-36.1%
NON-TRADITIONAL CAPITAL APPRECIATION			
Private Equity	15.0%	12.0%	5.0%
Liquid Alternatives	7.0%	5.0%	0.0%

Current Strategy[1]

TRADITIONAL AND NON-TRADITIONAL PORTFOLIOS

	MINIMUM	BENCHMARK	MAXIMUM	STRATEGY	+/-
Money Market	0%	5%	25%	10%	+5%
Canadian Bonds	5%	25%	45%	5%	-20%
Canadian Equity Large Cap	10%	20%	40%	35%	+15%
U.S. Equity Large Cap	0%	10%	20%	0%	-10%
International Equity	0%	10%	20%	5%	-5%
Emerging Market Equity	0%	5%	15%	5%	0%
Non-Traditional Income	5%	25%	45%	40%	+15%

TRADITIONAL PORTFOLIOS

	MINIMUM	BENCHMARK	MAXIMUM	STRATEGY	+/-
TRADITIONAL INCOME	**20%**	**40%**	**60%**	**40%**	**0%**
Money Market	0%	5%	25%	10%	+5%
Canadian Bonds	5%	35%	55%	30%	-5%
TRADITIONAL CAPITAL APPRECIATION	**40%**	**60%**	**80%**	**60%**	**0%**
Canadian Equity Large Cap	5%	25%	50%	40%	+15%
U.S. Equity Large Cap	0%	15%	30%	5%	-10%
International Equity	0%	15%	30%	10%	-5%
Emerging Market Equity	0%	5%	15%	5%	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.

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