MARKET UPDATE FROM THE GLOBAL CIO OFFICE

FEBRUARY 2020

FIERA CAPITAL

Just as one source of investor angst faded at the beginning of 2020, another intensified. After simmering trade tensions fueled a blockbuster start to the year, sentiment took a turn for the worse after the outbreak of the Wuhan coronavirus threatened to derail an already-fragile global growth backdrop. The epidemic, and efforts to contain it has forced investors to reassess the outlook for the world's second-largest economy and by extension, global growth prospects. Importantly, Chinese policymakers responded swiftly with new measures to stem the damage to both financial markets and the economy – though uncertainty is surely to prevail in the near-term until the virus has been contained.

FINANCIAL MARKET DASHBOARD

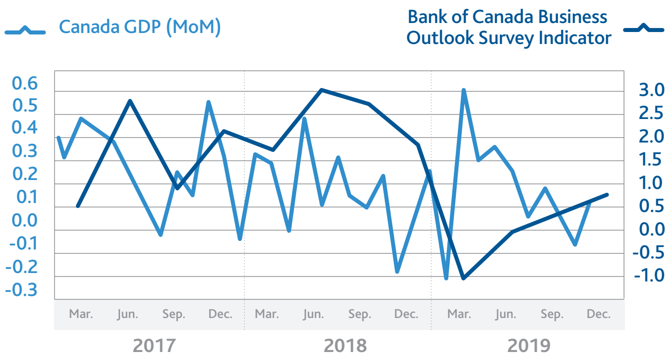
	JAN. 31, 2020	JAN.	YTD	1 YEAR
EQUITY MARKETS		% PRICE CHANGE (LC)		
S&P 500	3226	-0.16%	-0.16%	19.28%
S&P/TSX	17318	1.49%	1.49%	11.44%
MSCI EAFE	1994	-2.12%	-2.12%	8.88%
MSCI EM	1062	-4.69%	-4.69%	1.18%
FIXED INCOME (%)		BASIS POINT CHANGE		
US 10 Year Bond Yield	1.51	-41.1	-41.1	-112.3
US 2 Year Bond Yield	1.31	-25.6	-25.6	-114.4
US Corp BBB Spread	1.32	7.0	7.0	-37.0
US Corp High Yield Spread	4.01	74.0	74.0	-26.0
CURRENCIES		% PRICE CHANGE		
CAD/USD	0.76	-1.87%	-1.87%	-0.85%
EUR/USD	1.11	-1.07%	-1.07%	-3.10%
USD/JPY	108.35	-0.24%	-0.24%	-0.50%
COMMODITIES		% PRICE CHANGE		
WTI Oil (USD/bbl)	51.56	-15.56%	-15.56%	-4.15%
Copper (USD/pound)	2.52	-10.01%	-10.01%	-9.61%
Gold (USD/oz)	1582.90	3.93%	3.93%	19.94%

Equity markets were roiled by concerns that the spread of the deadly outbreak will undermine global growth prospects. Both the S&P 500 and Dow erased their year-to-date gains even after a decent start to the earnings season, while the S&P/TSX managed to buck the global trend and gained thanks to the sizeable gold exposure that acted as a hedge in what was a volatile month. Looking abroad, international developed markets dropped sharply as investors digested Wuhan-related headlines, while emerging markets assumed the brunt of the weakness, with MSCI's gauge of developing market stocks shedding nearly 5% in January.

The rising toll and rapid spread of the coronavirus saw investors seek a refuge in bonds, which drove yields back towards the panic-stricken lows witnessed last fall and spurred a sharp rise in the world's negative-yielding debt pile. US treasuries were in high demand, with memories of recession fears that plagued the markets last summer driving investors to the safety of government bonds. Yield curves flattened substantially in January. The US 10-year treasury yield collapsed by 41 basis to 1.51%, while the 30-year treasury yield dropped below 2% for the first time since October. And at the short-end, the 2 year treasury yield fell 26 basis points to 1.31% as investors raised their wagers for central bank rate cuts - even after a steady rate decision and a reasonably bright economic assessment from the Federal Reserve.

The US dollar recorded its best month since July as the tumultuous trading environment reaffirmed the safe haven status of the greenback. Only the swiss franc, Mexican peso, and yen managed to eke out a gain versus the dollar in January. In contrast, the Canadian dollar lost some momentum and posted its worst monthly loss since December 2018, while the euro and pound also lost some notable ground.

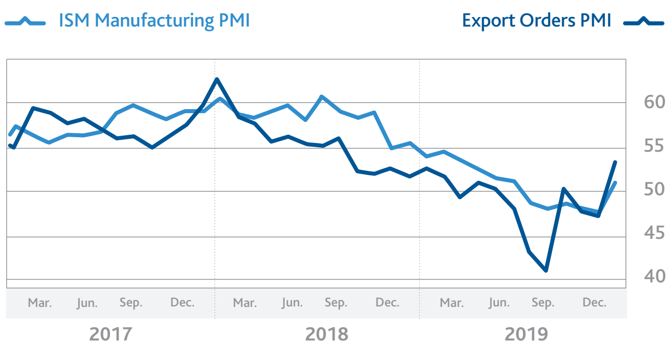
Finally, copper prices were pummelled as fears about the economic fallout stemming from the epidemic weighed on the demand outlook, where China accounts for half of demand globally. Similarly, oil prices tumbled lower as global growth fears and travel restrictions weighed on demand prospects, which came at the inopportune time when the world is already awash with crude. Meanwhile, gold broke out to a new post-2013 high as concerns about the fast-spreading pandemic boosted demand for haven assets and bolstered expectations that the Federal Reserve will keep rates low.



The Canadian economy advanced 0.1% in November, with both the goods and services sectors contributing positively. Gains in utility, construction, and retail activity helped to compensate for weakness in the mining and transportation space. Meanwhile, businesses remained cautiously optimistic at the end of the year, with the gauge of sentiment rising to its highest level since the end of 2018.

CANADA

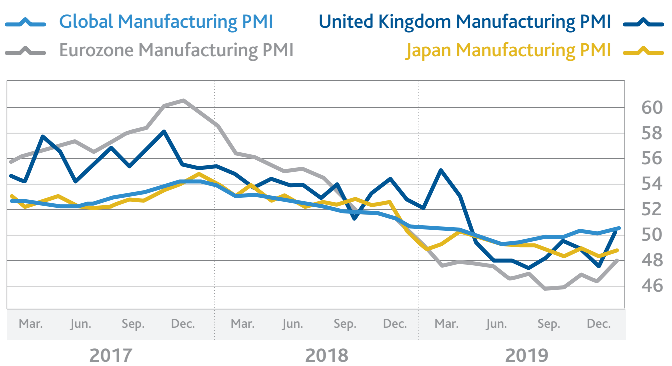
The Canadian economy bucked expectations for a negative GDP print in November, even in light of transitory headwinds that were weighing at the end of 2019. The breadth of the advance was impressive, with 15 out of 20 sectors seeing a rise in output and both the goods and services sides of the economy expanding during the month. Moreover, the widespread strength in the services-side of the economy (12 out of 15 major categories reported expanding activity) suggest that the temporary issues stemming from pipeline disruptions and the labor strike at CN were just that. Meanwhile, the Bank of Canada's Business Outlook Survey revealed that confidence improved in the final quarter of 2019. Interestingly, the survey was conducted before the ratification of USMCA and the US-Sino trade deal - which sets the stage for some upside to business sentiment going forward.



The worst may finally be behind America's beleaguered factory sector. The closely-monitored ISM Manufacturing survey rose back into expansion terrain for the first time since July 2019, reflecting sizeable improvements in the orders and production components. Encouragingly, the export sub-index rebounded forcefully in January, with the partial trade deal with China providing impetus for further expansion.

USA

The US factory sector found some solace early-on in the new year, with major breakthroughs on the trade front buoying sentiment. While the signing of the US-China phase one deal and ratification of USMCA in January should indeed reduce uncertainty and bolster both exports and investment, material gains are likely to be limited in the absence of an all-encompassing trade deal between the US and China, the looming protectionist bias in the US, and pandemic fears that restrict future investment intensions. As such, the mighty US consumer will continue to be the driving force in this 11th year of expansion, thanks to healthy labour markets and easy financial conditions that should boost confidence and spending. Meanwhile, the Fed provided a reasonably bright assessment for the US economy, suggesting that the coronavirus is unlikely to cause a policy rethink at this time.



The Global Manufacturing PMI advanced to 50.4 in January (from 50.1 in December) – marking its highest reading since April 2019. While the Markit US factory gauge retreated somewhat (to a still-expansionary 51.9), the Eurozone manufacturing PMI jumped to a nine-month high of 47.9, the United Kingdom manufacturing PMI rose back to 50.0, and the Japanese factory PMI advanced to 48.8.

INTERNATIONAL

The global factory sector showed further signs of stabilization in January, with broad based improvements across most major regions. While the signing of the phase one trade deal between the US and China lifted a key overhang from the global economy at the beginning of 2020, the viral outbreak in Wuhan poses some serious downside risks to an already-fragile recovery as negative growth impacts in China are almost surely to have some spillover effects across the globe. As such, the latest improvement in the global manufacturing space could be due for a near-term pause as firms brace for supply-chain disruptions and a blow to demand from the spread of the coronavirus. However, similar to previous epidemics, weakness should largely prove transitory in nature and result in a V-shaped recovery later this year, while the abundant liquidity backdrop should also lend support.

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