Market Update

Fiera Capital Global Asset Allocation

NOVEMBER 2020

FIERA CAPITAL

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.

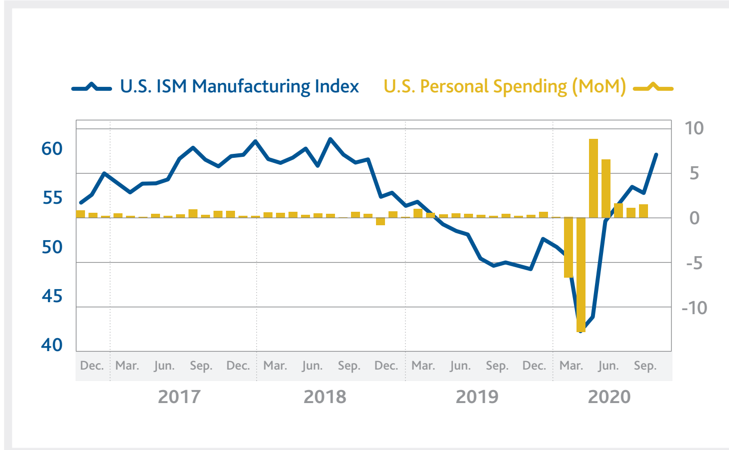
The U.S. dollar was well-bid in October as nervous investors sought-out a haven in the tumultuous financial market environment. In contrast, the euro stumbled as record virus cases and newly-imposed lockdowns weighed. At the same time, the European Central Bank laid the groundwork for further monetary 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

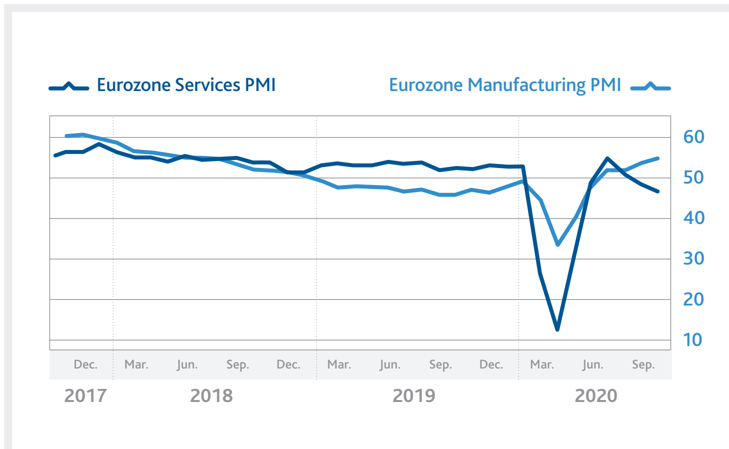
USA

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.



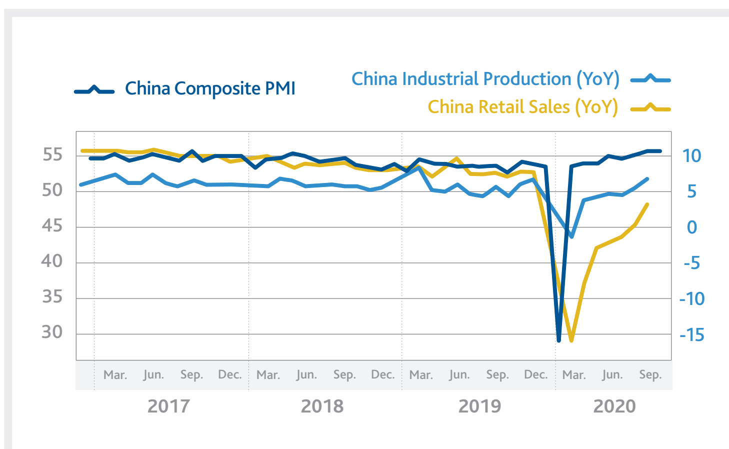
INTERNATIONAL

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 intensions 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.

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%
Canada	4.90%	5.50%	5.00%	0.00%
U.S.	3.80%	5.00%	4.00%	0.00%
INFLATION (HEADLINE Y/Y)				
Canada	0.50%	1.50%	1.00%	0.00%
U.S.	1.40%	1.50%	1.00%	0.00%
SHORT-TERM RATES				
Bank of Canada	0.25%	0.25%	0.25%	0.25%
Federal Reserve	0.25%	0.25%	0.25%	0.25%
10-YEAR RATES				
Canada Government	0.66%	1.25%	0.90%	0.50%
U.S. Government	0.87%	1.40%	1.00%	0.60%
PROFIT ESTIMATES (12 MONTHS FORWARD)				
Canada	1030	1050	975	675
U.S.	161	170	160	105
EAFE	104	120	110	75
EM	73	80	70	45
P/E (FORWARD 12 MONTHS)				
Canada	15.1X	17.0X	17.0X	14.0X
U.S.	20.3X	22.0X	22.0X	16.0X
EAFE	17.1X	17.0X	17.0X	14.0X
EM	15.2X	16.5X	16.5X	13.0X
CURRENCIES				
CAD/USD	0.75	0.78	0.74	0.65
EUR/USD	1.16	1.18	1.10	1.00
USD/JPY	104.66	115.00	104.00	100.00
COMMODITIES				
Oil (WTI, USD/barrel)	35.79	50.00	40.00	20.00

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	RAPID RECOVERY	SUBDUED RECOVERY	ECONOMIC STAGNATION
PROBABILITY	**45%**	**30%**	**25%**
Money Market	0.3%	0.3%	0.3%
Canadian Bonds	-2.5%	0.0%	2.6%
Canadian Equity	14.6%	6.4%	-39.3%
U.S. Equity	10.1%	9.2%	-40.7%
International Equity	10.3%	6.6%	-31.9%
Emerging Market Equity	15.1%	6.2%	-38.8%
Real Assets	5.0%	2.0%	0.0%

Current Strategy[1]

	MINIMUM	BENCHMARK	MAXIMUM	STRATEGY	ALLOCATION	RELATIVE
Money Market	0.0%	5.0%	25.0%	Underweight	0.0%	-5.0%
Canadian Bonds	5.0%	25.0%	45.0%	Underweight	5.0%	-20.0%
Canadian Equity	10.0%	20.0%	30.0%	Overweight	30.0%	+10.0%
U.S. Equity	0.0%	10.0%	20.0%	Neutral	10.0%	0.0%
International Equity	0.0%	10.0%	20.0%	Neutral	10.0%	0.0%
Emerging Markets Equity	0.0%	5.0%	15.0%	Neutral	5.0%	0.0%
Real Assets	5.0%	25.0%	45.0%	Overweight	40.0%	+15.0%

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.

Evolution of Strategy[1]

	MONEY MARKET	CANADIAN BONDS	CANADIAN EQUITY	U.S. EQUITY	INTERNATIONAL EQUITY	EMERGING MARKETS EQUITY	REAL ASSETS
October 5, 2011	+7.0%	-15.0%	+8.0%	0.0%	0.0%	0.0%	0.0%
October 12, 2011	+6.0%	-10.0%	+4.0%	0.0%	0.0%	0.0%	0.0%
November 11, 2011	+5.0%	0.0%	0.0%	0.0%	-5.0%	0.0%	0.0%
December 7, 2011	0.0%	0.0%	+5.0%	0.0%	-5.0%	0.0%	0.0%
April 20, 2012	+15.0%	-20.0%	+10.0%	0.0%	-5.0%	0.0%	0.0%
July 31, 2012	+20.0%	-15.0%	0.0%	0.0%	-5.0%	0.0%	0.0%
November 9, 2012	+10.0%	-15.0%	+10.0%	0.0%	-5.0%	0.0%	0.0%
February 19, 2013	+5.0%	-15.0%	+10.0%	0.0%	0.0%	0.0%	0.0%
August 6, 2013	0.0%	-15.0%	+10.0%	+5.0%	0.0%	0.0%	0.0%
December 3, 2013	+10.0%	-15.0%	+5.0%	0.0%	0.0%	0.0%	0.0%
February 5, 2014	0.0%	-15.0%	+10.0%	+10.0%	-5.0%	0.0%	0.0%
October 14, 2014	0.0%	-20.0%	+5.0%	+10.0%	+5.0%	0.0%	0.0%
November 14, 2014	+10.0%	-20.0%	+2.5%	+2.5%	+5.0%	0.0%	0.0%
July 13, 2015	0.0%	-20.0%	+7.0%	+4.0%	+9.0%	0.0%	0.0%
October 19, 2015	0.0%	-20.0%	+11.0%	+0.0%	+9.0%	0.0%	0.0%
June 24, 2016	+9.0%	-20.0%	+11.0%	+0.0%	+0.0%	0.0%	0.0%
July 12, 2016	0.0%	-20.0%	+15.0%	+0.0%	+0.0%	+5.0%	0.0%
July 27, 2016	+5.0%	-20.0%	+12.5%	+0.0%	+0.0%	+2.5%	0.0%
October 31, 2016	0.0%	-20.0%	+12.5%	0.0%	0.0%	+7.5%	0.0%
April 5, 2017	+5.0%	-15.0%	+7.5%	0.0%	-5.0%	+7.5%	0.0%
December 6, 2017	+15.0%	-15.0%	+5.0%	-5.0%	-5.0%	+5.0%	0.0%
October 9, 2018	+15.0%	-15.0%	+5.0%	-10.0%	-5.0%	+10.0%	0.0%
November 9, 2018	0.0%	-20%	+5%	-10%	-5%	+10%	+20%
December 17, 2018	-5.0%	-20%	+5%	-5%	-5%	+10%	+20%
July 12, 2019	-5.0%	-20.0%	+5.0%	0.0%	-5.0%	+10.0%	+15.0%
March 24, 2020	0.0%	-15.0%	0.0%	0.0%	0.0%	0.0%	+15.0%
July 8, 2020	-5.0%	-20.0%	+10.0%	0.0%	0.0%	0.0%	+15.0%

1 Based on a 100 basis point value added objective.

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