GLOBAL INVESTMENT OUTLOOK 2018

FROM THE GLOBAL CIO OFFICE

By Candice Bangsund, Vice President and Portfolio Manager, Global Asset Allocation

and François Bourdon, Global Chief Investment Officer

— CAUTIOUSLY OPTIMISTIC HEADING INTO 2018

Equity Markets Could Be Ripe for Near-term Correction

As 2017 draws to a close, global equity markets have enjoyed impressive gains in the reflationary environment of synchronized global growth, robust earnings, low inflation, and still-accommodative monetary policies. However, the risk-reward proposition has faded somewhat after such a strong period of equity performance, owing mainly to stretched valuations and some worrisome signs of investor complacency. Namely, the bar for economic and earnings surprises is much higher versus last year as buoyant expectations have largely been built into prices, while subdued levels of volatility suggest that investors remain vulnerable to disappointment and appear unprepared for a negative surprise. As a result, equity markets could be ripe for a near-term correction, which warrants some profit-taking after a record year. That being said, in our view, any pullback would likely be short-lived in nature and could present some compelling trading opportunities within the cyclical bull market.

All Major Regions of the World Contributing to Global Economic Expansion

Encouragingly, the favourable conditions that have underpinned the stock market rally remain intact as we head into 2018. The global economic expansion has become increasingly entrenched, with all major regions of the world contributing positively to the acceleration. While the US economy continues to be a predominant driver, we are also seeing above-trend growth in Canada, Europe, and Japan – while developing economies are demonstrating some renewed signs of stability. In contrast, we expect the UK economy to remain vulnerable in the coming year as the stalemate in Brexit negotiations weighs on confidence and spending intentions, while the pound-induced surge in inflation erodes the purchasing power of UK consumers – a major driver of the UK economy. Reflecting this strength, the global manufacturing PMI has breached a six-year high, though we expect this proxy for the overall health of the global economy to crest and mean-revert somewhat in 2018, but remain firmly in expansion territory next year.

Central Banks Likely to Take Their Time in Paring Back Stimulative Policies

Not surprisingly, global central banks have acknowledged this economic strength and have adopted a more constructive stance in response. Specifically, the Federal Reserve has commenced the process of unwinding its $4.5 trillion balance sheet and has reiterated its plans to gradually raise interest rates over the coming year. Similarly, the Bank of Canada and the Bank of England have conveyed that emergency level interest rates are no longer required, while the European Central Bank has announced a taper to its asset purchase program beginning in January. In contrast, the Bank of Japan has vowed to continue expanding its balance sheet for the foreseeable future as the deflationary mindset in Japan continues to place a cap on prices. However, the good news is that while the economy has been strong enough to keep recession fears at bay, it has yet to generate much in the way of inflationary pressures and we see no imminent danger of overheating conditions over our 12 month horizon – allowing central banks to take their time in paring back stimulative policies and leaving the global liquidity backdrop supportive in general.

Lower Equity Returns Expected During 2018

Taken together, while we are indeed in the later stages of the economic expansion, we remain in the early stages of the central bank tightening cycle - suggesting lower, albeit still positive equity returns in the coming year.

— INVESTMENT STRATEGY

Stronger Global Growth and Corporate Earnings Should Compensate for Rising Interest Rates

As central banks have yet to become outrightly restrictive, the global economic recovery may continue uninterrupted well into 2018. As such, the reflationary window that benefits equities at the expense of fixed income remains open at this time. While we see little value in bonds, the stronger global growth and corporate earnings trajectory should lend support to equity markets and compensate for rising interest rates in the coming year.

FIXED INCOME: UNDERWEIGHT FOR 2018

We believe that the path of least resistance for global government bond yields remains higher (and prices lower) in the environment of improving global growth, rebuilding inflationary pressures, and coordinated monetary normalization – compounded further by the prospect for expansionary fiscal policy in the US. In this environment, we maintain our underweight allocation to fixed income. Within the asset class, we would advise maintaining a short duration positioning, while also looking further up the risk spectrum towards spread product and inflation protection – both of which should thrive in the environment of negligible recession (default) risks and a revival in inflation expectations.

EQUITY: OVERWEIGHT CYCLICALLY-BIASED AND COMMODITY-LEVERED REGIONS IN 2018

As the global economic expansion lingers on, earnings growth should trend higher in accordance – lending support to equity prices over the coming year. We have a preference for the cyclically-biased and commodity-levered regions of the world (such as Canada and the Emerging Markets), while we anticipate a rotation from the defensive, interest-rate sensitive sectors of the market towards the cyclically-oriented plays (such as financials, energy, materials, industrials).

CANADA
STRATEGY: OVERWEIGHT

The revival in the commodity space should provide the strongest lift to the S&P/TSX, while financial stocks should rebound alongside renewed inflation expectations and steeper yield curves. Furthermore, pessimism towards Canadian stocks in 2017 has created a significant valuation discount, presenting a compelling opportunity for a reversal.

USA
STRATEGY: UNDERWEIGHT

While US equities should thrive on the robust domestic growth backdrop, relative upside is limited given already-stretched valuations at a time when the Fed is embarking on interest rate normalization – though earnings upside prevails amid potential corporate tax cuts and softer regulatory burdens.

INTERNATIONAL
STRATEGY: UNDERWEIGHT

While the European economy is indeed showing some signs of health, the recent wave towards populism warrants some caution on the future of the Euro Area, particularly in Italy where support for the euro has dwindled. Meanwhile, we expect that uncertainty regarding the fortunes of the UK economy in the wake of Brexit will place undue pressure on UK equities as negotiations linger on in the coming year.

EMERGING MARKETS
STRATEGY: OVERWEIGHT

Developing market bourses remain best positioned to benefit from the reflationary thrust in the marketplace and should ultimately prove resilient to a tighter Fed in the context of undemanding valuations, thanks to the broad improvement in global growth, firming commodity prices, and robust earnings growth.

COMMODITIES: POSITIVE OUTLOOK FOR OIL IN 2018

OIL: We remain bullish on oil prices heading into 2018. Notably, the synchronous global expansion should continue to bolster demand, while on the supply-side, inventory levels have stabilized and even receded towards more normal levels, with OPEC members agreeing to an extension to production curbs past March 2018 – all of which should help crude markets achieve a better balance in the coming year.

COPPER: Copper prices should remain well-supported by the stronger global growth backdrop and the corresponding rise in demand that comes with it, while dwindling inventories and a weaker greenback should also place a floor under prices.

GOLD: We remain neutral on gold due to the opposing forces in play. On the one hand, prices will remain vulnerable to the stronger US growth trajectory and as the corresponding revival in inflation accelerates the pace of monetary policy normalization in the US. On the other hand, escalating geopolitical uncertainties should help to place a floor under prices.

CURRENCIES: BEARISH OUTLOOK FOR THE US DOLLAR

US DOLLAR: The convergence of global growth prospects and central bank normalization supports an allocation towards non-US dollar currencies. Specifically, the synchronized global expansion should be bearish for the US dollar as ex-FOMC central banks begin to normalize in response to stronger global growth, compounded further by increased inflows into foreign markets.

CANADIAN DOLLAR: While the Canadian dollar could indeed take a breather as the Federal Reserve prepares to raise interest rates several more times through 2018, we expect the Canadian dollar to remain well-supported over the coming year - particularly if our call for higher crude prices comes to fruition.

EURO: We expect the euro to strengthen modestly over the coming year as the economic recovery becomes increasingly self-sustaining and as inflation gathers pace in response, allowing the European Central Bank to continue unwinding its ultra-accommodative monetary stance - while the softer greenback should also lend support.

STERLING: We have a neutral positioning on the pound. On the one hand, the pound remains historically cheap and should be supported by broad based weakness in the US dollar – though the uncertain economic backdrop in the UK could weigh on the pound in 2018, particularly as the implications of Brexit become increasingly clear.

— RISKS TO THE OUTLOOK: PREDOMINATELY GEOPOLITICAL IN NATURE

A Rise in Trade Protectionism

Recent trends towards populism and protectionism could bring about tremendous political upheaval and a corresponding crisis in confidence – disrupting the global economy and financial markets alike. In the US, renewed pressure to make good on his campaign promises ahead of the midterm elections could see President Trump's rhetoric on protectionism translate into action, particularly due to his ability to act unilaterally on the foreign policy front. Namely, any sudden breakdown of NAFTA negotiations or US-China relations remain front and center from a risk perspective. If anti-trade rhetoric in the US becomes a reality and results in tariffs being imposed on economies such as China, Canada, and Mexico - retaliatory measures could ignite a global trade war.

China Politics

With the twice-a-decade National Party Congress now behind us, we will be watchful on how aggressively President Xi pursues economic reform and at what expense to the growth outlook. After consolidating his power, an increasingly assertive and wide spread stance towards financial sector reforms to crack down on excesses could pose considerable risks to both economic growth and financial stability.

Escalating Geopolitical Tensions

Tensions between the US and North Korea remain elevated, while turmoil in the Middle East lingers on – both of which could negatively impact consumer and business sentiment and undercut both the global economy and financial markets alike.

Emerging Market Instability

Emerging market economies are most vulnerable to a faster pace of interest rate increases in the US and a corresponding resurgence in the US dollar. The sharp decline in foreign direct investment, repayment of US-denominated debt, and potential capital outflows could result in major contagion and a corresponding flight to quality trade, further exacerbating USD strength and a broad-based tightening of financial market conditions. Furthermore, excessive and rising debt burdens in China leave the economy vulnerable at a time when growth is already slowing, rekindling fears of a hard landing in the world's second largest economy.

European Politics

In Europe, while anti-euro parties were unable to gain significant ground in France and the Netherlands, the potential for a rise in euro skeptic movements prevails in Italy (where support for the euro remains low), which risks throwing the region into political disarray at the same inopportune time when the fallout of Brexit remains highly uncertain.

Legal Notice: The information and opinions herein are provided for informational purposes only and are subject to change. The information provided herein does not constitute investment advice and it should not be relied on as such. It should not be considered a solicitation to buy or an offer to sell a security. Views expressed regarding a particular company, security, industry or market sector should not be considered an indication of trading intent of any funds managed by Fiera Capital Corporation. Performance figures pertaining to composites are aggregations of the performance of one or more client portfolios or pooled funds that represent similar investment strategies. Further information on the investment strategy of composites can be found at www.fieracapital.com. All performance data is time weighted and assumes reinvestment of all distributions or dividends and does not take into account other charges or income taxes payable that would have reduced returns. Valuations and returns are computed and stated in Canadian dollars, unless otherwise noted. Past performance is no guarantee of future results and other calculation methods may produce different results. Individual account or fund performance will vary. Unless otherwise noted, index returns are presented as total returns, which reflect both price performance and income from dividend payments, if any, but do not reflect fees, brokerage commissions or other expenses of investing. The index comparisons in this presentation are provided for informational purposes only and should not be used as the basis for making an investment decision. Furthermore, the performance of the composite and the index may not be comparable. There may be significant differences between a composite and the indices referenced, including, but not limited to, risk profile, liquidity, volatility and asset composition.

— CONTACT US

FIERA CAPITAL CORPORATION

Montreal
1501 McGill College Avenue, Suite 800
Montreal, Quebec H3A 3M8
T 514 954-3300 **T** 1 800 361-3499

Calgary
607 8th Avenue SW, Suite 300
Calgary, Alberta T2P 0A7
T 403 699-9000

Halifax
1969 Upper Water Street, Suite 1710
Halifax, Nova Scotia, Canada B3J 3R7
T 902 421-1066

Toronto
1 Adelaide Street East, Suite 600
Toronto, Ontario M5C 2V9
T 416 364-3711 **T** 1 800 994-9002

Vancouver
1040 West Georgia Street, Suite 520
Vancouver, British Columbia V6E 4H1
T 604 688-7234 **T** 1 877 737-4433

Info@fieracapital.com

FIERA CAPITAL INC.

New York
375 Park Avenue, 8th Floor
New York, New York 10152
T 212 300-1600

Boston
60 State Street, 22nd Floor
Boston, Massachusetts 02109
T 857 264-4900

Dayton
10050 Innovation Drive, Suite 120
Dayton, Ohio 45342
T 937 847-9100

BEL AIR INVESTMENT ADVISORS

Los Angeles
1999 Avenue of the Stars, Suite 3200
Los Angeles, California 90067
T 310 229-1500 **T** 1 877 229-1500

FIERA CAPITAL (UK) LIMITED

London
39 St James's Street
London, United Kingdom SW1A 1JD
T +44 20 7518 2100

FIERA CAPITAL (EU) LIMITED

Frankfurt
Walther-von-Cronberg-Platz 13
Frankfurt, Germany 60594
T +49 69 9202 0750

FIERA CAPITAL (IOM) LIMITED

Isle of Man
St Mary's Court, 20 Hill Street
Douglas, Isle of Man IM1 1EU
T +44 1624 640200

This document is intended only to provide general information and is not intended to be and should not be construed or relied upon as legal or other professional advice. Fiera Capital Corporation assumes no liability by providing this guidance to its clients or any other person or entity. The information provided herein may or may not apply in any particular situation. Users should carefully review the guidance included here to determine applicability. The information and opinions herein are provided for informational purposes only and are subject to change. The information provided herein does not constitute investment advice and it should not be relied on as such. It should not be considered a solicitation to buy or an offer to sell a security. Performance figures pertaining to composites are aggregations of the performance of one or more client portfolios or pooled funds that represent similar investment strategies. Further information on the investment strategy of composites and pooled funds managed by Fiera Capital Corporation or its affiliates can be found at www.fieracapital.com. All performance data is time weighted and assumes reinvestment of all distributions or dividends and does not take into account other charges or income taxes payable that would have reduced returns. Valuations and returns are computed and stated in Canadian dollars, unless otherwise noted. Past performance is no guarantee of future results and other calculation methods may produce different results. Individual account or fund performance will vary. Information pertaining to Fiera pooled funds is not to be construed as a public offering of securities in any jurisdictions of Canada or otherwise. The offering of units of Fiera pooled funds is made pursuant to the funds' respective trust agreements and only to those investors in jurisdictions of Canada who meet certain eligibility or minimum purchase requirements. Important information about Fiera pooled funds, including a statement of the fund's investment objective, is contained in their trust agreements, a copy of which may be obtained from Fiera Capital Corporation. Unit values and investment returns will fluctuate. Please read the trust agreement of the pooled funds before investing. Pooled funds are not guaranteed, their values change frequently and past performance may not be repeated.

[1] Legal Notice to U.S Persons: Fiera Capital Corporation ("Fiera Capital") does not provide investment advisory services, or offer investment funds, in the United States or to U.S. persons. Investment advisory services for U.S. persons are provided by Fiera Capital's U.S. affiliates (the "U.S. Advisers") including Fiera Capital Inc. (FCI"). In connection with providing services to certain U.S. clients, FCI uses the resources of Fiera Capital acting in its capacity as a "participating affiliate," in accordance with applicable guidance of the staff of the Securities and Exchange Commission ("SEC"). These resources will specifically include, without limitation, the use of certain investment personnel. All such personnel of Fiera Capital will be treated as persons "associated with" FCI (as that term is defined by the Investment Advisers Act of 1940, as amended) in connection with the provision of any investment advisory services provided by such team members to U.S. clients. The U.S Advisers including FCI – are SEC-registered investment advisers. Further, Fiera Capital (UK) Limited and Fiera Capital (IOM) Limited are both registered as investment advisors with the SEC. Registration with the SEC does not imply a certain level of skill or training. Fiera Capital (UK) Limited is authorized and regulated by the Financial Conduct Authority in the United Kingdom and Fiera Capital (IOM) Limited is licensed by the Isle of Man Financial Services Authority.

[2] Fiera Capital is not authorized to conduct regulated activities in the United Kingdom and any such activities are only conducted by Fiera Capital (UK) Limited, an indirect wholly owned subsidiary of Fiera Capital. Fiera Capital is not authorized to conduct regulated activities in the Isle of Man and any such activities are only conducted by Fiera Capital (IOM) Limited, an indirect wholly owned subsidiary of Fiera Capital. Fiera Capital is not authorized to conduct regulated activities in Germany. Fiera Capital (UK) Limited maintains a branch office which is registered with the regulator in Germany.