TACTICAL ASSET ALLOCATION COMMITTEE MONTHLY COMMENTARY

SEPTEMBER 2020

FIERA CAPITAL

The fastest bear-market recovery in history showed little sign of wavering in August. Investor optimism remained buoyant on signs of progress in developing a vaccine to quell the pandemic, which helped to instill confidence in a swift global economic revival. Meanwhile, the sheer abundance of policy support and the conciliatory tone on US-China trade also emboldened risk appetite during the month. Importantly, the Federal Reserve's prominent policy shift rippled across financial markets after Chair Powell unveiled an average inflation targeting regime that will allow for a more relaxed approach towards inflation and consequently, an extended period of monetary accommodation – providing yet another tailwind for the global economy and stock markets alike.

FINANCIAL MARKET DASHBOARD

	AUGUST 31, 2020	AUGUST	YTD	1 YEAR
EQUITY MARKETS		% PRICE CHANGE (LC)		
S&P 500	3500	7.01%	8.34%	19.61%
S&P/TSX	16514	2.14%	-3.22%	0.44%
MSCI EAFE	1910	4.93%	-6.23%	3.66%
MSCI EM	1102	2.09%	-1.18%	11.90%
FIXED INCOME (%)		BASIS POINT CHANGE		
US 10 Year Bond Yield	0.70	17.7	-121.3	-79.1
US 2 Year Bond Yield	0.13	2.6	-143.8	-137.3
US Corp BBB Spread	1.45	-1.0	20.0	-3.0
US Corp High Yield Spread	4.63	-21.0	136.0	41.0
CURRENCIES		% PRICE CHANGE		
CAD/USD	0.77	2.79%	-0.44%	2.01%
EUR/USD	1.19	1.34%	6.45%	8.69%
USD/JPY	105.91	0.08%	-2.49%	-0.35%
COMMODITIES		% PRICE CHANGE		
WTI Oil (USD/bbl)	42.61	5.81%	-30.22%	-22.67%
Copper (USD/pound)	3.04	6.03%	8.72%	20.06%
Gold (USD/oz)	1970.50	0.39%	29.37%	29.38%

Global equity markets thrived for a fifth straight month, with the MSCI All Country World rising 6% in August. American bourses lead the charge, with the tireless rally in the heavy-hitting technology space fuelling the stretch of record-breaking gains for both the S&P 500 and the Nasdaq. The S&P/TSX also gained, albeit more modestly. Looking abroad, European stocks posted their best monthly gain since April on speculation that governments can avoid new lockdowns, while emerging market equities trimmed their 2020 losses after the US and China reiterated their commitment to the phase-one trade deal.

Fixed income markets posted negative results in August. The Federal Reserve embarked on a significant shift in its monetary policy framework and announced that it will target an inflation rate that averages 2% over time, implying greater tolerance for an overshoot. The biggest move was in the longer-end of the curve, with the 10 year treasury yield jumping 18 basis points to 0.70% as the more relaxed stance on inflation and employment stoked inflation expectations. Indeed, the 10-year breakeven inflation expectations rate shot higher and closed at 1.80%, just shy of January's pre-pandemic high. With the Fed ultimately reinforcing that rates will remain anchored at the short-end for an extended time, the yield curve steepened, with the closely-followed spread between the two- and ten-year yields expanding by 15 basis points to 0.57%, the widest in over two months.

The wave of softer dollar conditions prevailed as declining real rates eroded the US yield advantage, while the upbeat mood in the marketplace curbed demand for the world's reserve currency. The loonie touched its highest level versus the US dollar since January, while the euro rose to a two-year high thanks to the European Union's coordinated response on a joint recovery fund that has boosted the common currency's credibility.

Unrelenting weakness in the dollar bolstered the commodity spectrum through August. Oil rose more than 5%, which marked its fourth straight monthly gain. Copper advanced on mounting signs that the market is tightening, with improved global demand dynamics, China's liquidity injection, and shrinking inventories sending the red metal to a fresh two-year high. Finally, gold was whipsawed. While lingering risk appetite weighed on the haven metal, gold managed to eke out a modest gain after the Fed pledged to keep interest rates lower for years to come. Indeed, higher inflation tolerance and an extended period of low rates will keep real yields pinned lower, increasing the appeal of non-interest bearing gold.

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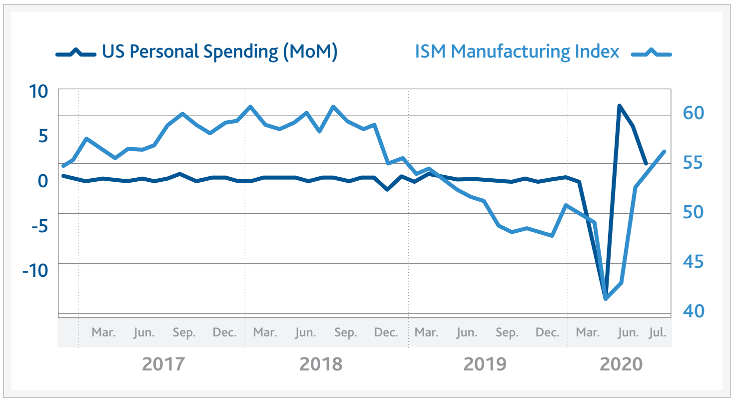
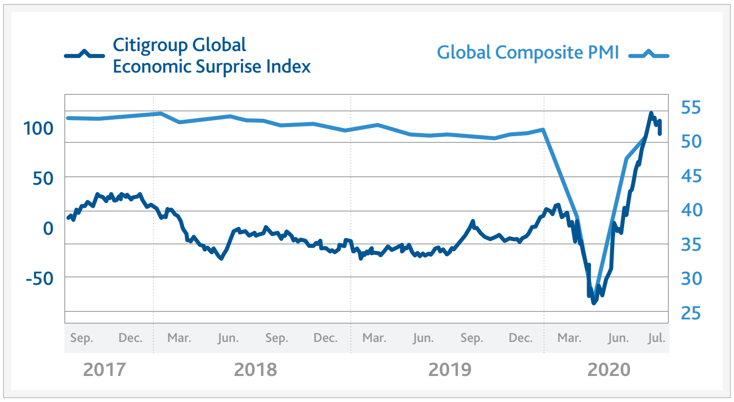
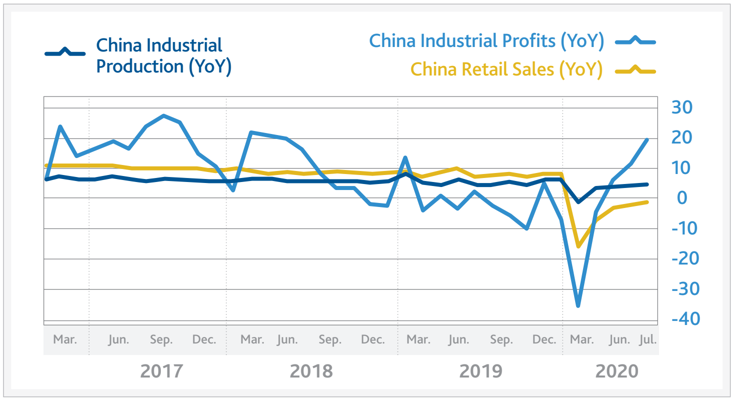
TACTICAL ASSET ALLOCATION COMMITTEE MONTHLY COMMENTARY



The US recovery is broadening out, with factory activity, housing, and consumer demand all improving steadily through the summer. Personal spending is on pace for a robust rebound in the third quarter, with rising compensation and an elevated savings rate acting as a crucial source of support for the consumer as fiscal support fades. Meanwhile, manufacturing expanded in August at the fastest pace in almost two years, with the ISM gauge of factory activity jumping to the highest since late-2018.



The global healing process continued through August, with economic gains reported broadly across the world. Citigroup's Global Economic Surprise Index soared to a record high during the month and exceeded the previous peak reached in 2009, signaling that incoming economic data has largely surpassed expectations. Meanwhile, the global Purchasing Managers Index has stabilized in expansion terrain for a second month in August, with widespread gains across both the factory and services sectors.



China was the first to succumb to the coronavirus and is proving to be the fastest to make a comeback. Activity data for July revealed that the factory sector has powered the recovery, even as sluggish retail activity undercut the rebound. Industrial output rose 4.8% y/y and factory profits surged 19.6% y/y, while retail sales slipped 1.1% y/y. Encouragingly, several indicators pointed towards further momentum in August, including improved business confidence and more robust sales of homes and autos.

USA

The US economy continues to power forward in the aftermath of the pandemic-induced recession. The consumer remains a pivotal source of strength, while factory and housing activity have also added to the narrative for a rapid recovery. Personal spending has made an impressive comeback as government support measures and pent-up demand reignited spending activity. At the same time, a rebound in hiring has fuelled income gains and will help to cushion the blow from fading fiscal support following the expiry of emergency benefits at the end of July. Looking forward, the third quarter is shaping up to be a historic one, though the outlook for the fourth quarter will hinge on a positive development on the vaccine-front as well as some sort of new fiscal support package, where a compromise is probable given that politicians are unlikely to allow an economic relapse ahead of the November elections.

INTERNATIONAL

The global outlook has brightened markedly since the nadir in April as reopening progress, pent-up demand, and the plethora of monetary and fiscal support revitalized economic activity. According to the purchasing manager indices (PMI), the global expansion lingered-on for a second month in August after emerging from contraction terrain in July. US business activity expanded at an impressive pace, with the composite PMI jumping to the strongest level since early 2019. Meanwhile, the Eurozone composite PMI fell modestly, though the balance remains consistent with ongoing expansion. In contrast, Japan has been slower to regain traction as the economy's reliance on trade has made its recovery increasingly precarious. Indeed, Japanese export data revealed a mixed backdrop, with exports to China accelerating even as shipments to developed economies remained weak as fresh outbreaks in the US and Europe dampened demand in July.

EMERGING

The Chinese economy is leading the global growth revival. Authorities have proven successful at mitigating the proliferation of the coronavirus which has eased disruptions on business, while central bank and government support measures have also been instrumental in guiding the world's second largest economy back to health. The activity data for July revealed an uneven backdrop, with rebounding factory output at odds with sluggish consumer trends. However, the closely-monitored PMI survey data for August signaled that the economy gained further ground throughout the summer, with the Composite gauge of services and manufacturing activity strengthening to its highest level since May 2018. Looking forward, the economic recovery in China appears to be well-entrenched. Domestic demand remains on the path to improvement here in the second half, while the progressive reopening of overseas economies should reignite external demand for Chinese goods.

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	AUGUST 31, 2020	RAPID RECOVERY	SUBDUED RECOVERY	ECONOMIC STAGNATION
PROBABILITY		45%	30%	25%
GDP GROWTH 2020				
Global	-3.90%	-3.00%	-4.00%	-6.00%
Canada	-6.50%	-5.50%	-7.00%	-8.00%
U.S.	-5.00%	-4.00%	-5.50%	-8.00%
GDP GROWTH 2021				
Global	5.10%	6.00%	5.00%	1.00%
Canada	4.80%	5.50%	5.00%	0.00%
U.S.	3.70%	4.50%	4.00%	0.00%
INFLATION (HEADLINE Y/Y)				
Canada	0.10%	2.00%	0.75%	-1.00%
U.S.	1.00%	2.00%	0.75%	-1.00%
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	0.62%	1.25%	0.90%	0.50%
US Government	0.70%	1.40%	1.00%	0.60%
PROFIT ESTIMATES (12 MONTHS FORWARD)				
Canada	788	875	800	675
U.S.	153	160	150	105
EAFE	100	110	95	75
EM	70	75	60	45
P/E (FORWARD 12 MONTHS)				
Canada	20.9X	21.0X	22.0X	14.0X
U.S.	22.8X	23.0X	23.0X	16.0X
EAFE	19.1X	18.0X	19.0X	14.0X
EM	15.7X	16.0X	17.0X	13.0X
CURRENCIES				
CAD/USD	0.77	0.78	0.74	0.65
EUR/USD	1.19	1.18	1.10	1.00
USD/JPY	105.91	115.00	104.00	100.00
COMMODITIES				
Oil (WTI, USD/barrel)	42.61	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.

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	-2.8%	-0.3%	2.3%
Canadian Equity	11.3%	6.6%	-42.8%
U.S. Equity	3.3%	2.1%	-43.4%
International Equity	1.9%	-2.1%	-35.2%
Emerging Market Equity	7.0%	-4.1%	-37.4%
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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