TACTICAL ASSET ALLOCATION COMMITTEE MONTHLY COMMENTARY

DECEMBER 2017

FIERA CAPITAL

The synchronous global expansion lingered on uninterrupted in November, though geopolitical revelations were once again in the spotlight. Specifically, while US policymakers indeed made some progress on tax reform, political unease resurfaced somewhat over the Trump-Russia probe, while tensions also re-emerged on the Korean Peninsula after the latest ballistic missile launch from North Korea. In the end, financial markets largely took these events in stride and instead remained keenly focussed on the robust fundamental backdrop at hand.

FINANCIAL MARKET DASHBOARD

	NOV. 30, 2017	NOV.	YTD	1 YEAR
EQUITY MARKETS		% PRICE CHANGE (LC)		
S&P 500	2,647	2.81%	18.26%	20.41%
S&P/TSX	16,067	0.26%	5.10%	6.53%
MSCI EAFE	2,020	0.88%	19.96%	23.96%
MSCI EM	1,120	0.15%	29.98%	29.90%
FIXED INCOME (%)		BASIS POINT CHANGE		
US 10 Year Bond Yield	2.41	3.0	-3.5	2.9
US 2 Year Bond Yield	1.78	18.2	59.4	66.9
CA 10 Year Bond Yield	1.89	-6.2	16.8	30.4
CA 2 Year Bond Yield	1.43	3.8	68.5	72.9
CURRENCIES		% PRICE CHANGE		
CAD/USD	0.78	-0.05%	4.21%	4.19%
EUR/USD	1.19	2.22%	13.19%	12.42%
USD/JPY	112.54	-0.97%	-3.78%	-1.68%
COMMODITIES		% PRICE CHANGE		
WTI Oil (USD/bbl)	57.40	5.55%	6.85%	16.10%
Copper (USD/pound)	3.04	-2.06%	21.21%	15.85%
Gold (USD/oz)	1,273.20	0.21%	10.55%	8.75%

Global equity markets advanced for the 13th consecutive month in November, marking the longest winning streak in history. The US equity market led the charge amid ongoing signs of economic resilience and as Washington took a step closer to tax reform. Meanwhile, the Canadian equity market also posted positive results, owing mainly to outperformance in the heavyweight financials sector. Finally, after hitting a six-year high, emerging market stocks lost some momentum at month-end as the slump in US technology shares spilled-over into the developing Asia bourses.

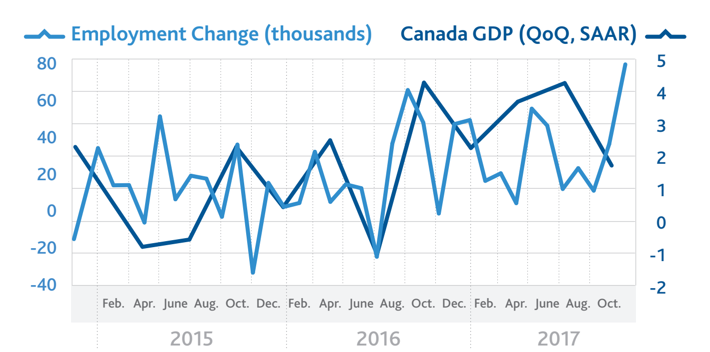
The North American yield curve flattened during the month, with the short-end moving higher as healthy economic results and constructive comments from the Federal Reserve solidified expectations for rate hikes. Specifically, Chair Yellen characterised the economic expansion as "increasingly broad-based" and continues to see the soft patch in inflation as transitory, which when combined with the stronger than expected Q3 GDP results boosted optimism on the fortunes of the US economy. At the long-end, US rates moved sideways throughout the month as investors weighed the potential for fiscal expansion in the US, while longer-term bond yields in Canada were capped on the upside on the back of some signs of economic moderation and lingering NAFTA uncertainties.

The greenback came under broad based pressure in November as investors contemplated the potential for tax overhaul, while unease over the Trump-Russia probe also restrained the US dollar. In contrast, the euro soared higher after ECB President Draghi highlighted ongoing strength in the economy and suggested that wage gains should eventually push inflation closer to the central bank's goal. Meanwhile, the loonie was virtually unchanged as the resurgence in crude prices came up against a lack of progress on NAFTA negotiations and some cautious rhetoric from the Bank of Canada.

In commodity markets, crude prices rose on speculation that OPEC and its allies would extend production cuts until the end of 2018, which came to fruition at the late-November gathering in Vienna, while the agreement was also extended to include both Nigeria and Libya. Finally, gold prices traded on some opposing forces at play – rising initially in the wake of some renewed geopolitical angst early in the month, though collapsing at month end after the prospect for higher US interest rates reduced the appeal of the yellow metal and weighed on prices.

CANADA

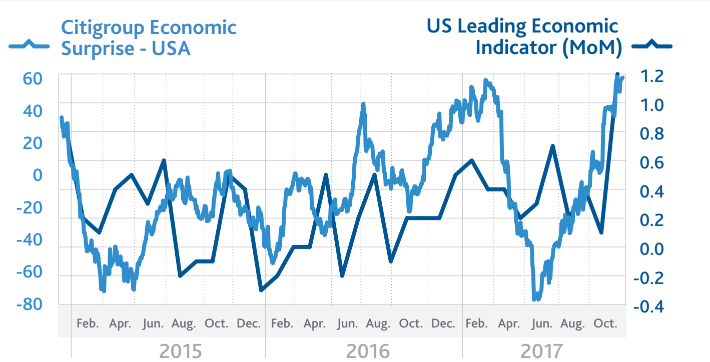
After a strong showing in the first half of 2017, the Canadian economy has moderated towards a more sustainable, albeit still-healthy pace. Encouragingly, the stellar consumer backdrop has helped to negate a sharp pullback in exports and a slower pace of business investment, with the Canadian economy creating a striking 33k jobs/month on average in the last year, a majority of which were full-time. This surge in job gains has pushed the unemployment rate down to a decade- low of 5.9%, while average hourly earnings soared 2.8% y/y last month. Taken together, these results have undoubtedly strengthened the case for the Bank of Canada to resume tightening next year, but at a tempered pace so as to monitor the impact of higher borrowing costs and new OSFI rules on the highly indebted consumer sector, as well as any progress (or lack thereof) on NAFTA negotiations.



While the Canadian economy has indeed cooled off after a stellar first half, the consumer backdrop remains well-supported by a healthy labour market, with a consensus-topping 80k jobs created in November.

USA

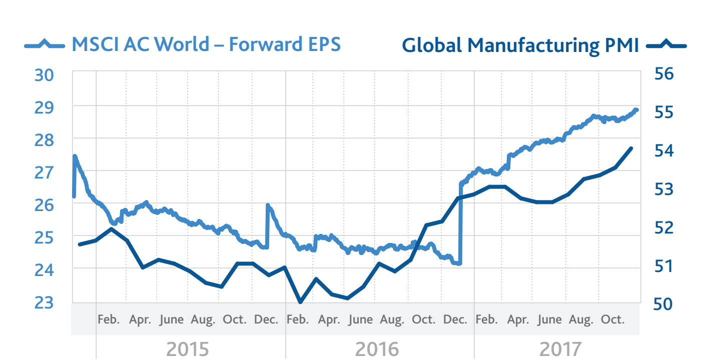
The US economy continued to gather momentum during the third quarter. The consumer remains a predominant driver amid ongoing labour market gains and a corresponding acceleration in wages, which has sent confidence soaring to a fresh 17-year high ahead of the all-important holiday spending season. Furthermore, business investment has also staged an impressive comeback on the back of healthy corporate profits, a resurgence in global demand, and a softer greenback – while speculation for business-friendly policies from the Trump administration has also bolstered sentiment. In response, recent rhetoric at the Federal Reserve remains constructive in general, with policymakers setting the stage for further rate normalization - while further progress on the tax reform front could potentially expedite this process over the coming year.



The US economy continues to gather some notable momentum, with economic results surpassing expectations across the board - while leading indicators are pointing towards further acceleration as we head into 2018.

INTERNATIONAL

The global manufacturing PMI (a barometer for the health of the global economy) ticked-up once again in November and continues to indicate some of the strongest and most broad based growth in several years. Regionally speaking, Europe and Japan are demonstrating ongoing signs of resilience and are growing at an above-trend pace, owing to the revival in global trade and the corresponding boost to exports. Moreover, domestic demand also remains buoyed by robust labour markets, with unemployment rates in both Europe and Japan declining to multi-year lows. Meanwhile, recent PMI data in China suggests that the world's second largest economy maintained some healthy momentum in November, allowing policymakers the room to pursue their deleveraging campaign and structural reforms going forward.



The fundamental underpinnings that have driven the impressive stock market rally this year remain largely intact as we head into 2018, including stronger global growth prospects and a corresponding revival in corporate earnings.

Our current scenarios are for a synchronized global expansion (65%), which is a continuation of the current environment that benefits equities, political instability (15%), which would be negative for equities and positive for bonds, emerging market instability (10%) led by emerging market disequilibrium that would introduce significant volatility, and finally, global economic stagnation (10%) which would be negative for equities and positive for bonds.

MAIN SCENARIO
SYNCHRONIZED GLOBAL EXPANSION

PROBABILITY 65%

The global economy continues to expand in a synchronous manner, with all major regions contributing to the advance. The US expansion lingers on, thanks to widespread improvements across both the consumer and manufacturing sectors of the economy, while political developments have an overall neutral impact. Meanwhile, with the worst of the oil shock behind us, the Canadian economy thrives on the combination of resurgent US demand, a competitive Canadian dollar, and fiscal support. Finally, while policymakers in Europe and Japan ultimately prove successful in reflating growth, emerging market economies prosper in the environment of improving global demand, ample liquidity, and rising commodity prices. Taken together, the lucrative combination of synchronized global growth and a revival in commodity prices should bolster inflation expectations across the world, though not to levels that would threaten the status of the economic recovery. This reflationary backdrop bodes well for equities and commodities (ex-gold) at the expense of fixed income and the US dollar.

SCENARIO 2
POLITICAL INSTABILITY

PROBABILITY 15%

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. Starting 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 in Italy (where support for the euro remains low) and possibly Spain risks throwing the region into political disarray at the same inopportune time when the fallout of Brexit remains highly uncertain. In the US, the potential for ongoing gridlock threatens to delay President Trump's pro-growth agenda, while ongoing pressure to make good on his campaign promises ahead of the midterm elections could see the President's rhetoric on protectionism translate into action, particularly due to his ability to act unilaterally on the foreign policy front. Finally in China, the leadership change at the National Party Congress this fall could pose considerable risks to both economic growth and financial stability if policymakers retain power and enact more assertive, wide spread financial sector reforms to crack down on excesses.

SCENARIO 3
EMERGING MARKET INSTABILITY

PROBABILITY 10%

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. Finally, anti-trade rhetoric in the US becomes a reality, resulting in tariffs being imposed on emerging market economies such as China and Mexico, with retaliatory measures igniting a global trade war.

SCENARIO 4
GLOBAL ECONOMIC STAGNATION

PROBABILITY 10%

After eight years in recovery-mode, the global economy fails to regain momentum and runs out of steam, as secular forces such as an aging population, weaker labor force growth, and lower productivity temper growth prospects worldwide. Furthermore, the massive amounts of monetary stimulus already in place prove unsuccessful in bolstering growth as a broad-based deterioration in confidence offsets the environment of accommodative policy, leaving policymakers with little ammunition to shelter the economy from the storm.

FORECASTS FOR THE NEXT 12 MONTHS

SCENARIOS	NOVEMBER 30, 2017	SYNCHRONIZED GLOBAL EXPANSION	POLITICAL INSTABILITY	EMERGING MARKET INSTABILITY	GLOBAL ECONOMIC STAGNATION
PROBABILITY		65%	15%	10%	10%
GDP GROWTH (Y/Y)					
Global	3.50%	3.75%	3.00%	2.00%	2.00%
Canada	3.30%	2.75%	1.00%	0.50%	0.50%
U.S.	2.30%	3.00%	1.00%	1.50%	1.00%
INFLATION (HEADLINE Y/Y)					
Canada	1.40%	2.40%	1.75%	1.00%	1.00%
U.S.	2.00%	2.40%	2.00%	1.50%	1.00%
SHORT-TERM RATES					
Bank of Canada	1.00%	1.75%	1.00%	0.50%	0.50%
Federal Reserve	1.25%	2.25%	1.25%	0.75%	0.50%
10-YEAR RATES					
Canada Government	1.89%	2.65%	1.70%	1.40%	1.50%
US Government	2.41%	3.25%	1.40%	1.20%	1.25%
PROFIT GROWTH (12 MONTHS FORWARD)					
Canada	13.2%	17.4%	-16.1%	-19.0%	-16.1%
U.S.	10.8%	19.0%	-15.5%	-15.5%	-7.9%
EAFE	13.8%	16.5%	-18.0%	-18.0%	-9.4%
EM	20.9%	30.4%	-21.8%	-28.6%	-21.8%
P/E (FORWARD 12 MONTHS)					
Canada	16.4X	17.0X	17.5X	17.5X	18.5X
U.S.	18.4X	18.0X	17.5X	17.5X	17.5X
EAFE	15.3X	15.5X	15.5X	15.5X	15.5X
EM	12.7X	13.5X	13.5X	12.5X	14.5X
CURRENCIES					
CAD/USD	0.78	0.85	0.70	0.65	0.70
EUR/USD	1.19	1.20	0.95	1.10	1.15
USD/JPY	112.54	125.00	110.00	100.00	90.00
COMMODITIES					
Oil (WTI, USD/barrel)	57.40	65.00	45.00	40.00	45.00

MATRIX OF EXPECTED RETURNS

SCENARIOS	SYNCHRONIZED GLOBAL EXPANSION	POLITICAL INSTABILITY	EMERGING MARKET INSTABILITY	GLOBAL ECONOMIC STAGNATION
PROBABILITY	65%	15%	10%	10%
Money Market	1.4%	1.0%	0.8%	0.8%
Canadian Bonds	-2.4%	4.4%	6.2%	5.5%
Canadian Equity	7.4%	-21.0%	-23.8%	-16.5%
U.S. Equity	-3.9%	-19.5%	-13.3%	-12.1%
International Equity	-5.5%	-19.3%	-13.0%	-10.8%
Emerging Market Equity	4.4%	-23.9%	-30.8%	-18.3%

CURRENT STRATEGY [1]

	MINIMUM	BENCHMARK	MAXIMUM	STRATEGY	ALLOCATION	RELATIVE	APRIL 5 CHANGES
Money Market	0.0%	5.0%	25.0%	Overweight	10.0%	+5.0%	Increased by 5.0 %
Canadian Bonds	20.0%	40.0%	60.0%	Underweight	25.0%	-15.0%	Increased by 5.0 %
Canadian Equity	20.0%	25.0%	45.0%	Overweight	32.5%	+7.5%	Decreased by 5.0%
U.S. Equity	3.0%	13.0%	23.0%	Neutral	13.0%	0.0%	No change
International Equity	2.0%	12.0%	22.0%	Underweight	7.0%	-5.0%	Decreased by 5.0%
Emerging Markets Equity	0.0%	5.0%	15.0%	Overweight	12.5%	+7.5%	No change

[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
August 10, 2011	+5.0%	-15.0%	+5.0%	+5.0%	0.0%	0.0%
October 5, 2011	+7.0%	-15.0%	+8.0%	0.0%	0.0%	0.0%
October 12, 2011	+6.0%	-10.0%	+4.0%	0.0%	0.0%	0.0%
November 11, 2011	+5.0%	0.0%	0.0%	0.0%	-5.0%	0.0%
December 7, 2011	0.0%	0.0%	+5.0%	0.0%	-5.0%	0.0%
April 20, 2012	+15.0%	-20.0%	+10.0%	0.0%	-5.0%	0.0%
July 31, 2012	+20.0%	-15.0%	0.0%	0.0%	-5.0%	0.0%
November 9, 2012	+10.0%	-15.0%	+10.0%	0.0%	-5.0%	0.0%
February 19, 2013	+5.0%	-15.0%	+10.0%	0.0%	0.0%	0.0%
August 6, 2013	0.0%	-15.0%	+10.0%	+5.0%	0.0%	0.0%
December 3, 2013	+10.0%	-15.0%	+5.0%	0.0%	0.0%	0.0%
February 5, 2014	0.0%	-15.0%	+10.0%	+10.0%	-5.0%	0.0%
October 14, 2014	0.0%	-20.0%	+5.0%	+10.0%	+5.0%	0.0%
November 14, 2014	+10.0%	-20.0%	+2.5%	+2.5%	+5.0%	0.0%
July 13, 2015	0.0%	-20.0%	+7.0%	+4.0%	+9.0%	0.0%
October 19, 2015	0.0%	-20.0%	+11.0%	+0.0%	+9.0%	0.0%
June 24, 2016	+9.0%	-20.0%	+11.0%	+0.0%	+0.0%	0.0%
July 12, 2016	0.0%	-20.0%	+15.0%	+0.0%	+0.0%	+5.0%
July 27, 2016	+5.0%	-20.0%	+12.5%	+0.0%	+0.0%	+2.5%
October 31, 2016	0.0%	-20.0%	+12.5%	0.0%	0.0%	+7.5%
April 5, 2017	+5.0%	-15.0%	+7.5%	0.0%	-5.0%	+7.5%

1 Based on a 100 basis point value added objective.

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