TACTICAL ASSET ALLOCATION COMMITTEE MONTHLY COMMENTARY

FEBRUARY 2018

FIERA CAPITAL

The new year got off to a remarkable start. Despite the potential for a US government shutdown and some protectionist rhetoric from the Trump administration, appetite for risky assets prevailed in January - as the reflationary environment of stronger and more synchronous global growth, rising commodity prices, and robust corporate earnings sent both global equity gauges and government bond yields soaring higher.

FINANCIAL MARKET DASHBOARD

	JAN. 31, 2018	JAN.	YTD	1 YEAR
EQUITY MARKETS		% PRICE CHANGE (LC)		
S&P 500	2,823	5.62%	5.62%	23.91%
S&P/TSX	15,951	-1.59%	-1.59%	3.68%
MSCI EAFE	2,153	4.99%	4.99%	24.28%
MSCI EM	1,254	8.30%	8.30%	37.98%
FIXED INCOME (%)		BASIS POINT CHANGE		
US 10 Year Bond Yield	2.71	30.0	30.0	25.2
US 2 Year Bond Yield	2.14	25.8	25.8	93.6
CA 10 Year Bond Yield	2.29	24.4	24.4	53.0
CA 2 Year Bond Yield	1.84	14.9	14.9	106.7
CURRENCIES		% PRICE CHANGE		
CAD/USD	0.81	2.09%	2.09%	5.82%
EUR/USD	1.24	3.41%	3.41%	14.97%
USD/JPY	109.19	-3.11%	-3.11%	-3.20%
COMMODITIES		% PRICE CHANGE		
WTI Oil (USD/bbl)	64.73	7.13%	7.13%	22.57%
Copper (USD/pound)	3.20	-3.18%	-3.18%	17.16%
Gold (USD/oz)	1,339	2.27%	2.27%	10.79%

Global equity markets posted some stellar gains in January. The S&P 500 rounded out an impressive month on the back of the robust economic and earnings backdrop, while newly-implemented tax legislation also bolstered appetite for US stocks. In contrast, Canadian equities bucked the trend and continued to lag their global peers as lingering uncertainties on the fate of NAFTA weighed on sentiment. Looking abroad, both European and Japanese stocks ended the month higher, while emerging market bourses topped the performance charts and posted their best monthly gain in almost two years, as the slide in the US dollar drove investors into the risker assets of the developing world.

The constructive growth outlook has sparked a rout in global bond markets, with investors recalibrating their expectations for both inflation and central bank normalization. Specifically in the US, the 10 year treasury yield rose above 2.7% for the first time since 2014. The combination of higher crude prices and Congressional passage of the tax bill have pushed inflation expectations higher, while investors have also recalibrated their wagers for rate hikes and have moved closer to the Federal Reserve's dot forecast for three more rate hikes this year. Meanwhile, the sound economic backdrop pushed corporate and high yield spreads lower, with credit sectors outperforming their government counterparts during the month.

The US dollar posted its third successive monthly decline in January after the US Treasury Secretary touted the advantages of a weaker dollar, while expectations for other foreign central banks to reign-in monetary stimulus also put pressure on the greenback. In contrast, the yen rallied after the Bank of Japan acknowledged some progress on the inflation front, while the euro advanced to a three-year high after the economy expanded at its fastest pace in a decade last year. Finally, the Canadian dollar strengthened after the Bank of Canada raised interest rates for a third time in January, while higher oil prices also lent support.

Not surprisingly, broad based dollar weakness has fuelled some notable gains across the commodity space. Crude prices marched higher amid a record stretch of declines in US stockpiles that has depleted inventories towards their five-year averages. And despite a revival in inflation expectations and the corresponding back-up in bond yields, gold prices took their cue from the weaker dollar and pushed higher in January.

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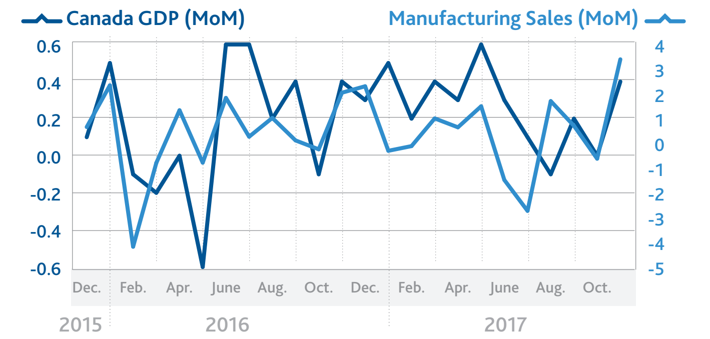
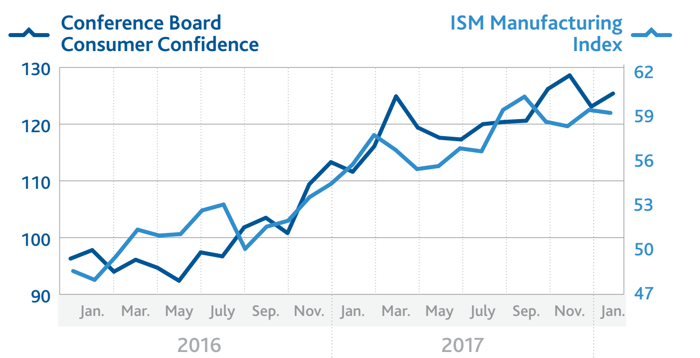


The Canadian economy demonstrated some broad based strength at the end of 2017, with notable contributions from manufacturing activity, oil and gas extraction, and retail trade – reinforcing the Bank of Canada's gradual path towards policy normalization.

CANADA

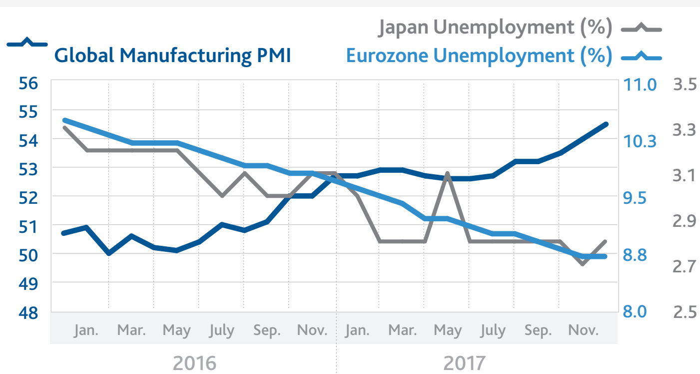
The Canadian economy continues to impress and grew at its fastest pace in six months in November, with broad based gains across both the goods and services-producing sectors. The domestic backdrop remains in healthy shape. Namely, the Canadian economy added 423k jobs in 2017 (394k of which were full-time), the unemployment rate declined to a multi-decade low, and wages have accelerated in accordance – all of which should lend support to the consumer and provide a cushion to higher interest rates this year. Meanwhile, survey data revealed that business sentiment remains generally buoyant. While firms are indeed concerned about the future of NAFTA, business leaders remain optimistic on the outlook for exports, thanks to a stronger US economy and a still-competitive Canadian dollar.



The US economy continues to fire on all cylinders. Notably, the outlook for both consumers and businesses remains reasonably bright for 2018, with household and corporate confidence holding in at buoyant levels early in the new year.

USA

The US economy ended 2017 on a high note. The consumer continues to be a driving force, thanks to healthy job creation, rising wages, and lower taxes – while corporations are thriving on the combination of accelerating profits and a stronger global growth outlook. Looking ahead, economic prospects in the US remain fruitful, with newly approved and implemented tax reform fueling expectations for an extended boom in both household and corporate spending, while the weaker US dollar and solid global demand are likely to boost exports. Not surprisingly, the Federal Reserve has acknowledged the vigorous state of the US economy and has expressed greater confidence in the outlook for inflation in response – essentially setting the stage for further rate hikes in the coming year.



Economic prospects in overseas economies also remain constructive in early 2018, with international economies thriving on the lucrative combination of rock-bottom unemployment rates and strong global demand.

INTERNATIONAL

Looking abroad, the growth outlook remains constructive early on in 2018, with the global manufacturing PMI hovering at a seven-year high. The European economy posted a 19th consecutive quarterly gain in the fourth quarter and marked its best annual expansion in a decade, while the Japanese economy continues to grow at an above-trend pace. Encouragingly, while domestic demand remains well-supported by declining jobless rates in both Europe and Japan, external sectors of the economy are being boosted by a revival in global trade. Meanwhile, the Chinese economy exceeded policymaker's expectations and expanded at a stronger-than-expected pace in 2017, a level strong enough to mask the myriad of underlying issues in the economy, including massive debts and excesses in key industries.

Our current scenarios are for a synchronized global expansion (60%), which is a continuation of the current environment that benefits equities, trade protectionism (20%), which would be negative for equities and positive for bonds, political instability (10%) that would introduce significant financial market volatility, and finally, stronger than expected growth & inflation (10%) which would be negative for bonds and positive for equities.

MAIN SCENARIO
SYNCHRONIZED GLOBAL EXPANSION

PROBABILITY 60%

The global economy continues to grind higher 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 stimulative fiscal policy also provides a boost. Meanwhile, the Canadian economy moderates towards a more sustainable, albeit above-trend pace – though the fate of NAFTA clouds the outlook. 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
TRADE PROTECTIONISM

PROBABILITY 20%

The biggest risk to our base case scenario is a rise in trade protectionism stemming from restrictive policies in the US. Specifically, 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. The risk of a 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 – which would all but derail the status of the global economic expansion and fuel a rout in financial markets alike.

SCENARIO 3
POLITICAL INSTABILITY

PROBABILITY 10%

Recent trends towards populism in Europe could bring about renewed political upheaval and a corresponding crisis in confidence – disrupting the global economy and financial markets alike. While anti-euro parties were unable to gain significant ground in 2017, the potential for a rise in euro skeptic movements prevails in Italy (where support for the euro remains low), while political angst in Spain (the Euro Area's fourth largest economy) looms after the Catalonian election indicated strong support for independence – all of which risks throwing the region into political disarray at the same inopportune time when a lack of progress in Brexit negotiations has raised the odds of a "hard Brexit" scenario. And in China, with the twice-a-decade National Party Congress now behind us, we will be watchful on how aggressively President Xi pursues economic reforms 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.

SCENARIO 4
STRONGER GROWTH & INFLATION

PROBABILITY 10%

Inflation expectations de-anchor from current subdued levels and surge higher on the back of the stronger-than-expected global growth backdrop. Specifically, the global expansion has become increasingly self-sustaining and excess capacity has been absorbed, with all major OECD economies operating at/near full potential. When combined with central bank's tolerance for higher inflation and the overly-stimulative monetary policy backdrop in general, the global economy could potentially overheat and trigger a faster tightening schedule as central bank doves morph into hawks - increasing the risk of a policy error, shortening the cycle, and stifling the economic recovery. With asset valuations at extreme levels, this leaves little room for error from a financial market perspective.

FORECASTS FOR THE NEXT 12 MONTHS

SCENARIOS	JANUARY 31, 2018	SYNCHRONIZED GLOBAL EXPANSION	TRADE PROTECTIONISM	POLITICAL INSTABILITY	STRONGER GROWTH & INFLATION
PROBABILITY		60%	20%	10%	10%
GDP GROWTH (Y/Y)					
Global	3.50%	3.75%	2.00%	3.00%	4.25%
Canada	3.50%	2.75%	0.50%	1.00%	3.25%
U.S.	2.50%	3.25%	1.00%	1.00%	4.00%
INFLATION (HEADLINE Y/Y)					
Canada	1.90%	2.25%	1.50%	1.50%	3.00%
U.S.	2.10%	2.25%	2.00%	1.75%	3.25%
SHORT-TERM RATES					
Bank of Canada	1.25%	1.75%	0.50%	1.00%	2.25%
Federal Reserve	1.50%	2.25%	1.50%	1.50%	3.00%
10-YEAR RATES					
Canada Government	2.29%	2.85%	1.40%	1.70%	3.80%
US Government	2.71%	3.25%	2.00%	1.60%	4.25%
PROFIT GROWTH (12 MONTHS FORWARD)					
Canada	15.0%	21.9%	-18.7%	-7.1%	24.8%
U.S.	16.0%	15.8%	-10.3%	0.9%	27.0%
EAFE	21.3%	15.0%	-14.8%	-10.6%	27.8%
EM	29.9%	36.7%	-11.2%	-11.2%	43.5%
P/E (FORWARD 12 MONTHS)					
Canada	16.1X	16.5X	16.5X	16.5X	16.0X
U.S.	18.2X	18.0X	16.5X	17.0X	18.0X
EAFE	15.1X	15.5X	15.0X	14.5X	15.0X
EM	13.2X	13.5X	11.0X	12.5X	12.5X
CURRENCIES					
CAD/USD	0.81	0.85	0.65	0.70	0.85
EUR/USD	1.24	1.25	1.10	1.00	1.10
USD/JPY	109.19	105.00	100.00	100.00	120.00
COMMODITIES					
Oil (WTI, USD/barrel)	64.73	72.00	40.00	45.00	75.00

MATRIX OF EXPECTED RETURNS

SCENARIOS	SYNCHRONIZED GLOBAL EXPANSION	TRADE PROTECTIONISM	POLITICAL INSTABILITY	STRONGER GROWTH & INFLATION
PROBABILITY	60%	20%	10%	10%
Money Market	1.5%	0.9%	1.1%	1.8%
Canadian Bonds	-1.7%	8.4%	6.7%	-8.2%
Canadian Equity	8.6%	-27.6%	-17.3%	7.8%
U.S. Equity	-5.6%	-12.4%	-5.7%	3.5%
International Equity	-7.1%	-13.0%	-18.0%	-0.2%
Emerging Market Equity	2.8%	-28.8%	-24.9%	0.0%

CURRENT STRATEGY [1]

	MINIMUM	BENCHMARK	MAXIMUM	STRATEGY	ALLOCATION	RELATIVE	DEC. 6 CHANGES
Money Market	0.0%	5.0%	25.0%	Overweight	20.0%	+15.0%	Increased by 10.0 %
Canadian Bonds	20.0%	40.0%	60.0%	Underweight	25.0%	-15.0%	No change
Canadian Equity	20.0%	25.0%	45.0%	Overweight	30.0%	+5.0%	Decreased by 2.5%
U.S. Equity	3.0%	13.0%	23.0%	Underweight	8.0%	-5.0%	Decreased by 5.0%
International Equity	2.0%	12.0%	22.0%	Underweight	7.0%	-5.0%	No change
Emerging Markets Equity	0.0%	5.0%	15.0%	Overweight	10.0%	+5.0%	Decreased by 2.5%

[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.

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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%
December 6, 2017	+15.0%	-15.0%	+5.0%	-5.0%	-5.0%	+5.0%

[1] Based on a 100 basis point value added objective.

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