TACTICAL ASSET ALLOCATION COMMITTEE MONTHLY COMMENTARY

APRIL 2018

FIERA CAPITAL

Investors had plenty to contemplate in March, including some worrisome signs of a peak in global growth, further progress towards monetary policy normalization, and a persistently erratic political landscape. While President Trump indeed softened his stance somewhat and excluded a majority of countries from the proposed steel and aluminum levies, he redirected his focus squarely towards China and imposed tariffs on $50 billion of imported goods, while Chinese officials have promised reciprocal measures in response – stoking fears of a full-blown trade war. On a brighter note, US officials seem fairly intent on securing a NAFTA deal in the near-term. In the end, financial market volatility ensued and the underlying tone of risk aversion prevailed during the month.

FINANCIAL MARKET DASHBOARD

	MAR. 29, 2018	MAR.	YTD	1 YEAR
EQUITY MARKETS		% PRICE CHANGE (LC)		
S&P 500	2,641	-2.69%	-1.22%	11.77%
S&P/TSX	15,367	-0.49%	-5.19%	-1.16%
MSCI EAFE	2,002	-2.41%	-2.37%	11.67%
MSCI EM	1,169	-2.17%	0.93%	22.01%
FIXED INCOME (%)		BASIS POINT CHANGE		
US 10 Year Bond Yield	2.74	-12.2	33.35	35.2
US 2 Year Bond Yield	2.27	1.6	38.31	101.2
CA 10 Year Bond Yield	2.09	-14.4	4.60	46.6
CA 2 Year Bond Yield	1.78	-1.2	8.60	102.7
CURRENCIES		% PRICE CHANGE		
CAD/USD	0.78	-0.40%	-2.43%	3.37%
EUR/USD	1.23	0.87%	2.46%	15.47%
USD/JPY	106.43	-0.23%	-5.56%	-4.45%
COMMODITIES		% PRICE CHANGE		
WTI Oil (USD/bbl)	64.94	5.35%	7.48%	28.34%
Copper (USD/pound)	3.03	-2.64%	-8.33%	14.06%
Gold (USD/oz)	1322.80	0.37%	1.03%	6.05%

Global equity markets remained on the defensive in March amid concerns that lingering trade tensions could spark a trade war and undermine the synchronized global expansion, while an extended selloff in the technology space also weighed on sentiment. Regionally speaking, the US equity market swung wildly during the month as investors searched for direction, with the S&P 500 closing out its first quarterly loss since 2015. Similarly, the Canadian equity market also declined modestly, but managed to outperform its global peers as deeply-discounted valuations for the TSX provided a much-needed buffer. Weakness also extended to overseas markets, with both international and emerging market bourses joining the monthly rout in equity prices.

North American yield curves bull-flattened and fixed income markets posted positive results in March. After rising steadily for most of the first quarter, long-term bond yields shifted lower as investors weighed some signs of cresting global growth prospects, while ongoing political angst sent investors flocking to the safety of government bonds. Meanwhile, the short-end of the curve remained well-anchored as market expectations for the path of interest rates converged with central bank forecasts. In the corporate space, investment grade spreads widened as appetite for risk deteriorated in March, though interestingly, high yield spreads barely budged during the month.

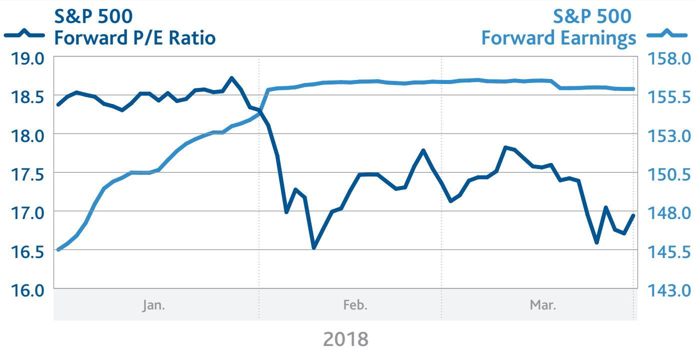
Sentiment towards the greenback was plagued by the prospect for swelling US deficits, while the latest shuffle at the White House and the ascendency of an increasingly protectionist administration also weighed on the dollar. The Canadian dollar also depreciated, with widening interest rate differentials between the US and Canada mainly to blame – though the NAFTA overhang also added to the negative tone. In contrast, the Japanese yen bucked the global trend and strengthened as investors sought out the safe haven currency in an otherwise tumultuous trading environment.

Crude prices rallied after US stockpiles declined below the closely-watched five-year average for the first time since 2015 in an encouraging sign that OPEC production cuts are helping to rebalance the market, while speculation mounted that the hawkish-leaning US administration will pursue a hard-line approach and intensify sanctions against Iran (OPEC's third largest producer). Finally, gold flourished in the environment of increased financial market volatility, even as the Federal Reserve continued on its path towards policy normalization.

The TSX has been weighed down by headline risks pertaining to the future of NAFTA. However, valuations appear to be discounting this news, while earnings have been revised higher – setting the stage for a reversal as the overhang recedes in 2018.

CANADA

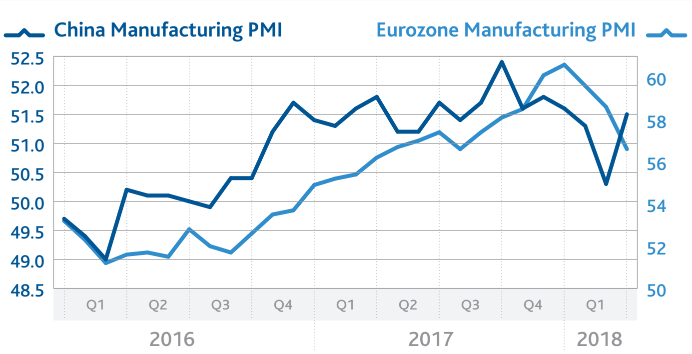
The Canadian economy continues to moderate towards more sustainable, albeit still above-trend levels. Despite the latest pullback in retail spending, household fundamentals remain healthy in general, thanks to an improving labour market and a revival in wages. However, higher borrowing costs and a softening housing market could weigh on consumer spending going forward, endorsing the much-needed rotation towards exports and business investment to lead the growth charge this year (absent any negative developments on the trade front). In response to the latest streak of above-trend growth, inflation rebounded in February, with both headline and core prices accelerating to their fastest pace in more than three years – which should allow the Bank of Canada to continue normalizing monetary policy later this year.



The 2018 equity market rout has been driven exclusively by multiple contraction, even in the wake of a healthy earnings backdrop. Year-to-date, the S&P 500 has declined by 33 points, with strong earnings revisions (+269 points) more than offsetting compressing multiples (-302 points).

USA

Despite some seasonal softness in the first quarter, the US outlook remains bright. Economic gains continue to be fairly widespread across the entire economy. The consumer remains well-supported by the trifecta of robust labour markets, rising wages, and personal tax cuts, while trade volumes have accelerated in the environment of stronger global growth and accordingly, demand for US products. Taken together, we expect a corresponding acceleration in business investment to meet this revival in demand, while tax cuts should also provide a boost to the corporate sector. Moreover, newly-announced fiscal stimulus is set to juice an already-buoyant economy, creating upside risks to the inflation outlook and allowing the Federal Reserve to continue the gradual process raising interest rates and unwinding its balance sheet.



Global economic prospects remain compelling, allowing major exporters to power through US protectionist threats. While survey data in Europe and Japan has indeed turned lower, the pace of growth remains robust by historical standards. Meanwhile, stronger global demand has bolstered overseas shipments and factory activity in China.

INTERNATIONAL

Looking abroad, there are some tentative signs that global growth is stabilizing, albeit at still-lofty levels. In Europe, gauges of both consumer and business confidence have rolled-over modestly from their multi-year highs. After growing at its fastest pace in a decade in 2017, spare capacity in the Eurozone is dwindling as the economy moves back towards "trend" levels of growth in 2018, which remains consistent with the latest pullback in the survey data. And in China, growth momentum remains on an enviable path heading into the second quarter, even as policymaker's crackdown on financial risks. Activity data in the world's second largest economy surpassed expectations, with factory production, exports, and investment all exceeding expectations in March, while even domestic demand remained robust.

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	MARCH 29, 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	2.70%	2.75%	0.50%	1.00%	3.25%
U.S.	2.60%	3.25%	1.00%	1.00%	4.00%
INFLATION (HEADLINE Y/Y)					
Canada	2.20%	2.25%	1.50%	1.50%	3.00%
U.S.	2.20%	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	1.75%	2.50%	1.50%	1.50%	3.00%
10-YEAR RATES					
Canada Government	2.09%	2.85%	1.40%	1.70%	3.80%
US Government	2.74%	3.25%	2.00%	1.60%	4.25%
PROFIT GROWTH (12 MONTHS FORWARD)					
Canada	11.7%	15.5%	-23.0%	-12.0%	18.3%
U.S.	16.5%	12.0%	-13.3%	-2.4%	22.8%
EAFE	13.0%	4.8%	-22.4%	-18.5%	16.4%
EM	25.7%	32.1%	-14.1%	-14.1%	38.7%
P/E (FORWARD 12 MONTHS)					
Canada	15.1X	16.5X	16.5X	16.5X	16.0X
U.S.	16.4X	18.0X	16.5X	17.0X	18.0X
EAFE	13.8X	15.5X	15.0X	14.5X	15.0X
EM	12.3X	13.5X	11.0X	12.5X	12.5X
CURRENCIES					
CAD/USD	0.78	0.85	0.65	0.70	0.85
EUR/USD	1.23	1.25	1.10	1.00	1.10
USD/JPY	106.43	105.00	100.00	100.00	120.00
COMMODITIES					
Oil (WTI, USD/barrel)	64.94	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	-2.6%	7.5%	5.8%	-9.1%
Canadian Equity	12.7%	-24.8%	-14.1%	11.9%
U.S. Equity	-3.5%	-10.5%	-3.6%	5.8%
International Equity	-4.6%	-10.5%	-15.7%	2.6%
Emerging Market Equity	5.4%	-27.0%	-22.9%	2.5%

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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