TACTICAL ASSET ALLOCATION COMMITTEE MONTHLY COMMENTARY

MAY2019

FIERA CAPITAL

Risk appetite lingered-on in April as investors embraced the improved tone in global economic conditions, an impressive string of corporate earnings results, and the dovish pivot from major central banks. Notably, the latest economic results out of both Europe and China suggest that the worst of the global economic slowdown may finally be behind us, while cautious undertones from the likes of the Bank of Canada, European Central Bank, and Bank of Japan that have echoed the Federal Reserve's patient and data dependent stance also bolstered investor sentiment last month.

FINANCIAL MARKET DASHBOARD

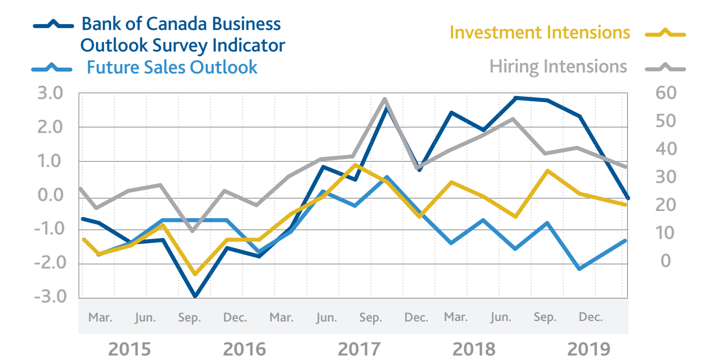
	APRIL 30 2019	APR.	YTD	1 YEAR
EQUITY MARKETS		% PRICE CHANGE (LC)		
S&P 500	2946	3.93%	17.51%	11.25%
S&P/TSX	16581	2.97%	15.76%	6.23%
MSCI EAFE	1921	2.46%	11.72%	-5.98%
MSCI EM	1079	2.00%	11.75%	-7.32%
FIXED INCOME (%)		BASIS POINT CHANGE		
US 10 Year Bond Yield	2.50	9.7	-18.2	-45.1
US 2 Year Bond Yield	2.27	0.6	-22.2	-22.2
CA 10 Year Bond Yield	1.71	9.5	-25.5	-59.5
CA 2 Year Bond Yield	1.56	1.4	-30.0	-33.0
CURRENCIES		% PRICE CHANGE		
CAD/USD	0.75	-0.31%	1.85%	-4.08%
EUR/USD	1.12	-0.03%	-2.20%	-7.15%
USD/JPY	111.42	0.51%	1.58%	1.90%
COMMODITIES		% PRICE CHANGE		
WTI Oil (USD/bbl)	63.91	6.27%	40.74%	-6.80%
Copper (USD/pound)	2.90	-1.18%	10.28%	-4.95%
Gold (USD/oz)	1285.70	-0.56%	0.34%	-2.54%

Global equity market strength extended itself for a fourth consecutive month in April. Regionally speaking, gains were broad based across the globe, with developed market equities outperforming their emerging market counterparts. Once again, the S&P 500 led the global charge and breached new record levels, while the S&P/TSX also briefly touched new highs during the month. In Europe, the number of companies exceeding earnings estimates was the highest in seven quarters and boosted stock prices, while emerging market bourses maintained their winning streak as the revitalized global growth backdrop and optimism on the potential for a US-China trade deal lent support to the gauge of developing market equities.

In fixed income markets, government bond yields shifted higher across the curve and yield curves bear-steepened. The largest move took place in the long-end, with both the US and Canadian 10 year bond yields backing up to 2.50% and 1.71% respectively after a sharp drop the month prior. Meanwhile, the move in the short-end was more modest, with 2 year bond yields remaining relatively anchored as the subdued inflation backdrop and the dovish pivot from central banks saw investors firm-up their wagers for rate cuts this year. Finally, credit spreads tightened further and corporate bonds outperformed their government peers during the month.

The greenback strengthened versus virtually all of its G10 peers and climbed to a 2019 high as several major central banks outside of the US followed the Federal Reserve's lead and reinforced their accommodative approach, which fuelled currency weakness outside of the United States. However, the mighty dollar reversed course late in the month and declined as solid economic results in Europe and China helped to assuage global growth fears and quelled demand for the greenback.

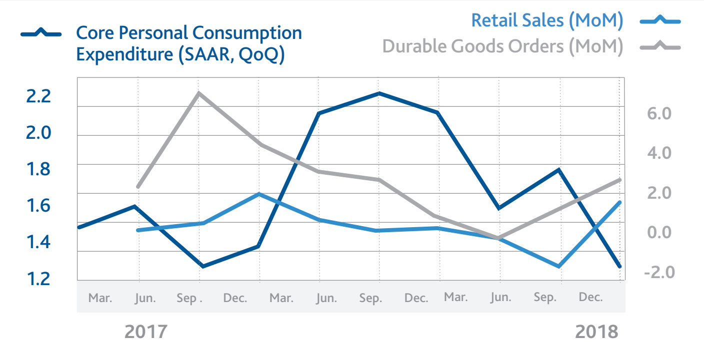
Finally, oil prices jumped to a six-month high after America's vow for tougher restrictions on Iranian exports threatened to squeeze the supply backdrop, while OPEC and its allies reiterated their pledge to reduce crude inventories and keep a lid on output even after calls from President Trump to lower prices. Meanwhile, gold posted its third straight monthly decline in April as the environment of improved risk appetite diminished the appeal of bullion as a haven, while copper slid lower as investors contemplated the health and fragility of the Chinese economy, the world's largest consumer of the red metal.



According to the Bank of Canada Business Outlook Survey, corporate sentiment contracted during the first quarter as headwinds pertaining to the energy sector and the global trade backdrop weighed. However, forward-looking indicators on the outlook for sales, investment, and hiring plans suggest that Canadian businesses remain reasonably upbeat about the future.

CANADA

The Canadian economy gave back some of its outsized gains from January and shrunk in February, essentially reinforcing the narrative of a sluggish start to 2019. While poor weather conditions took a bite out of economic activity, falling resource production also added to the economy's woes as government-mandated production curbs in Alberta restrained activity in the oil patch. The good news is that the first quarter slump has largely been driven by temporary factors that are expected to fade. Looking ahead, the Canadian economy is expected to bounce back alongside a recovery in the energy sector and as trade tensions subside – which should help to facilitate the much-needed rotation towards business investment and exports from the overly-exhausted consumer that has become vulnerable in the environment of higher borrowing costs.



After a sluggish start to the year, US growth prospects improved in March and are providing a strong handoff to the second quarter. Retail sales climbed by 1.6% (the most since September 2017), while durable goods orders soared by 2.7%. While the Federal Reserve has acknowledged the upbeat tone to the economic backdrop, subdued pricing pressures have reinforced the patient and data dependent approach, with the Fed's core gauge of inflation falling further below the 2% objective.

USA

The US economy defied expectations and grew at a stronger-than-expected pace during the first quarter of 2019. However, the underlying details revealed that domestic demand softened somewhat, with both consumer and business spending cooling at the beginning of the year. As we head into the second quarter, the latest string of activity data suggests that both the consumer and businesses will bounce back – echoing the constructive undertones from Federal Reserve Chair Powell in early May. Importantly, the consumer remains a pivotal source of strength, thanks to robust labour market conditions, solid wage gains, and low interest rates. Furthermore, trends in the factory sector were also favourable in March and suggest that US manufacturers are seeing some healthy demand, which should act as a boon for business spending prospects in the coming year.

The latest activity data out of China has reaffirmed that the world's second largest economy may finally be finding a floor after a difficult end to 2018, which should have positive ramifications for the global economy in general. Retail sales growth accelerated to 8.7% y/y, industrial output growth rebounded to 8.5% y/y, and fixed asset investment growth came in at 6.3% y/y. Meanwhile, exports jumped 14.2% y/y as renewed optimism on the state of US-China trade discussions and a stabilizing global growth landscape boosted export activity.

INTERNATIONAL

We are seeing some tentative signs that the reflationary impulse from Chinese policymakers is finally proving successful in stabilizing the world's second largest economy and by extension, the global growth trajectory. The Chinese economy grew at a healthy pace during the first quarter, while impressive rebounds in factory output, retail sales, and investment also added to the constructive narrative. Meanwhile, recent data suggests that the worst may be behind the Eurozone as idiosyncratic factors that were exacerbated by global trade tensions recede. The European economy recalibrated at the beginning of 2019, owing to resilience in Spain and France and as Italy bounced back into expansion territory, while the German economy is expected to make a comeback as external trade conflicts and temporary woes in the auto sector fade.

MAIN SCENARIO
SYNCHRONIZED GLOBAL EXPANSION

PROBABILITY 40%

The global economy finds a bottom and reaccelerates in a synchronous manner, with all major regions contributing to the advance. The US leads the global charge, though moderates to a still above-trend pace as the fiscal and monetary impetus fades in 2019, which has positive spillover effects for the Canadian economy. Looking abroad, transitory factors that were met with global trade tensions recede and the European and Japanese economies recalibrate, while the Chinese economy stabilizes in response to the plethora of monetary and fiscal stimulus measures that place a floor under the world's second largest economy and by extension, global growth prospects. Taken together, the combination above-trend global growth and a revival in commodity prices should bolster inflation expectations and send major central banks back to the table in late 2019. This optimistic, growth-levered scenario bodes well for equities and commodities (ex-gold) at the expense of fixed income and the US dollar.

SCENARIO 2
MODERATE GROWTH

PROBABILITY 25%

In this alternate scenario, the global economy fails to reaccelerate in a meaningful way, but nonetheless continues to grow in-line with (or modestly below) its potential rate. The environment of moderate and self-sustaining growth keeps inflation stable at levels that do not pose a threat to the economic trajectory, allowing major central banks to maintain stimulative policies and remain sidelined throughout 2019 – creating a lucrative, not-too-hot, not-too-cold backdrop for both the economy and investors alike. The accommodative impulse from major central banks ultimately nurtures the economic recovery and extends the visibility of the cycle. This reflationary backdrop also bodes well for equities and commodities (ex-gold) at the expense of fixed income and the US dollar – though to a lesser magnitude than our base case scenario.

SCENARIO 3
POLITICAL INSTABILITY

PROBABILITY 20%

The trend towards populism and protectionism could ignite a crisis in confidence and destabilize the financial markets. The biggest risk to our base case scenario is a rise in protectionism stemming from the US and the threat of a trade war that would derail the synchronous global expansion. While the US has proven successful in securing a trade deal with Canada and Mexico and extracting some concessions from China, tensions remain due to the sizeable trade deficit in the US. As such, Trump's focus may shift towards other trading partners in Europe and Japan, with the US threatening to use Section 232 (national security grounds) to impose tariffs on auto imports, while tensions between the US and China are surely to prevail. Taken together, any escalation in the trade debacle would be detrimental for trade flows and hence, the global economy. Meanwhile, the stakes are high for this year's European Parliamentary elections where the populists are likely to continue gaining ground, while lingering tensions and a lack of progress in Brexit negotiations raises the odds of a "hard Brexit" scenario.

SCENARIO 4
STAGFLATION

PROBABILITY 15%

After an extended period of undershooting central bank inflation targets, policymakers tolerate higher inflation (overshoot) and monetize inflation. As a result, inflation expectations start to de-anchor from current subdued levels and surge higher. This would come at the same time that fiscal stimulus is being reigned-in (2020) in the later stages of the economic expansion, causing growth to moderate to well below potential levels in response. In the Stagflation scenario, a stagnation in growth occurs concurrently with an acceleration in inflation as a result of previous excessive monetary stimulation and an exhaustion of productive capacity - creating a tumultuous financial market landscape whereby both equities and bonds experience broad based declines.

FORECASTS FOR THE NEXT 12 MONTHS

SCENARIOS	APRIL 30, 2019	SYNCHRONIZED GLOBAL EXPANSION	MODERATE GROWTH	POLITICAL INSTABILITY	STAGFLATION
PROBABILITY		40%	25%	20%	15%
GDP GROWTH (Y/Y)					
Global	3.70%	3.80%	3.50%	2.00%	2.75%
Canada	1.10%	2.50%	1.50%	0.50%	2.75%
U.S.	3.20%	3.00%	2.50%	1.00%	2.75%
INFLATION (HEADLINE Y/Y)					
Canada	1.90%	2.50%	1.50%	1.50%	3.00%
U.S.	1.90%	2.50%	1.75%	2.00%	3.00%
SHORT-TERM RATES					
Bank of Canada	1.75%	2.25%	1.75%	1.25%	2.00%
Federal Reserve	2.50%	3.00%	2.50%	2.00%	2.75%
10-YEAR RATES					
Canada Government	1.71%	2.60%	2.25%	1.40%	3.00%
US Government	2.50%	3.20%	3.00%	2.25%	4.00%
PROFIT GROWTH (12 MONTHS FORWARD)					
Canada	6.8%	12.0%	4.7%	-12.3%	7.2%
U.S.	6.6%	9.2%	4.3%	-8.0%	-1.8%
EAFE	5.6%	10.1%	-3.5%	-8.9%	-8.9%
EM	8.6%	19.3%	4.2%	-18.4%	-3.3%
P/E (FORWARD 12 MONTHS)					
Canada	15.1X	15.0X	15.5X	14.0X	13.0X
U.S.	17.0X	17.0X	17.5X	15.0X	16.0X
EAFE	13.8X	14.0X	15.5X	12.0X	13.5X
EM	12.5X	13.0X	13.5X	11.0X	11.5X
CURRENCIES					
CAD/USD	0.75	0.79	0.77	0.70	0.80
EUR/USD	1.12	1.20	1.16	1.10	1.10
USD/JPY	111.42	100.00	110.00	115.00	120.00
COMMODITIES					
Oil (WTI, USD/barrel)	63.91	70.00	65.00	40.00	80.00

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MATRIX OF EXPECTED RETURNS

SCENARIOS	SYNCHRONIZED GLOBAL EXPANSION	MODERATE GROWTH	POLITICAL INSTABILITY	STAGFLATION
PROBABILITY	40%	25%	20%	15%
Money Market	2.0%	1.8%	1.5%	1.9%
Canadian Bonds	-2.7%	-0.4%	5.4%	-5.8%
Canadian Equity	4.0%	0.5%	-24.0%	-13.8%
U.S. Equity	-2.9%	-2.1%	-18.5%	-18.9%
International Equity	-0.1%	-0.6%	-20.0%	-21.3%
Emerging Market Equity	8.2%	0.7%	-29.3%	-23.4%
Real Assets	7.0%	7.0%	5.0%	3.0%

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	25.0%	+5.0%
U.S. Equity	0.0%	10.0%	20.0%	Underweight	5.0%	-5.0%
International Equity	0.0%	10.0%	20.0%	Underweight	5.0%	-5.0%
Emerging Markets Equity	0.0%	5.0%	15.0%	Overweight	15.0%	+10.0%
Real Assets	5.0%	25.0%	45.0%	Overweight	45.0%	+20.0%

[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.

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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%

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

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