Market Update

Fiera Capital Global Asset Allocation

JANUARY 2021

FIERA CAPITAL

A tumultuous 2020 came to a close on a positive note amid optimism that the distribution of safe and effective vaccines will revitalize the economy in 2021. While the pandemic intensified at year-end, investors opted to look through the rampant outbreak towards the post-vaccine economy, while the deluge of policy stimulus also underpinned sentiment. Indeed, after several weeks of wrangling, U.S. lawmakers managed to approve a $900 billion fiscal relief package that will be critical in bridging the gap until widespread vaccine rollout. Meanwhile, the U.K. and European Union unveiled a historic post-Brexit accord at the 11th hour, which formally completes Britain's separation from the bloc more than four years after the referendum.

FINANCIAL MARKET DASHBOARD

	DEC. 31, 2020	DEC.	YTD	1 YEAR
EQUITY MARKETS		% PRICE CHANGE (LC)		
S&P 500	3756	3.71%	16.26%	16.26%
S&P/TSX	17433	1.41%	2.17%	2.17%
MSCI EAFE	2148	4.56%	5.43%	5.43%
MSCI EM	1291	7.15%	15.84%	15.84%
FIXED INCOME (%)		BASIS POINT CHANGE		
U.S. 10 Year Bond Yield	0.91	7.4	-100.4	-100.4
U.S. 2 Year Bond Yield	0.12	-2.7	-144.8	-144.8
U.S. Corp BBB Spread	1.09	-10.0	-16.0	-16.0
U.S. Corp High Yield Spread	3.27	-58.0	0.0	0.0
CURRENCIES		% PRICE CHANGE		
CAD/USD	0.79	2.16%	2.01%	2.01%
EUR/USD	1.22	2.42%	8.94%	8.94%
USD/JPY	103.25	-1.02%	-4.94%	-4.94%
COMMODITIES		% PRICE CHANGE		
WTI Oil (USD/bbl)	48.52	7.01%	-20.54%	-20.54%
Copper (USD/pound)	3.52	2.88%	25.81%	25.81%
Gold (USD/oz)	1895.10	6.72%	24.42%	24.42%

Global equity markets extended their upward momentum through December, with the MSCI All Country World closing-out the year at an all-time high. Regionally speaking, gains were widespread across the globe. The S&P 500, Nasdaq, and Dow Jones Industrial Average all ended the year at record levels, while Canadian and international stocks also participated in the risk-on move. Emerging market stocks led the global charge and climbed to the highest level since 2007, with China's benchmark rising to a five-year high as economic data revealed a vigorous recovery in the world's second largest economy.

Bond markets took their cue from the improved global growth trajectory and the prospect for increased U.S. fiscal spending, which saw investors ramp-up their expectations for inflation and pushed the long-end of the curve higher throughout the month. In contrast, the short-end remained pinned lower as central banks reinforced their pledges for unrelenting support. Consequently, the yield curve steepened, with the spread between the ten and two-year treasury yield hitting a three-year high at around 80 basis points.

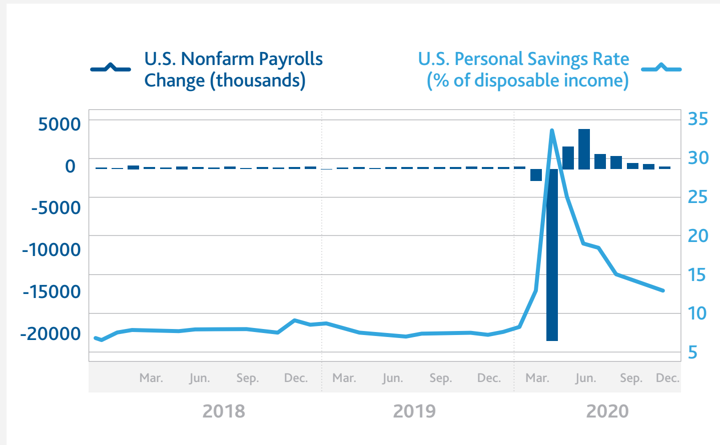
The US dollar retreated to its weakest level since April 2018 as the favorable cyclical outlook and the ebullient mood in the marketplace sapped demand for the greenback. By contrast, the Canadian dollar traded near a two-year high as the sharp jump in crude prices buoyed the loonie, while the euro also soared to new multi-year levels. The pound strengthened to the highest since 2018 ahead of Britain's formal exit from the European Union after 47 years of membership, with the long-awaited Brexit deal receiving approval from lawmakers in late-December.

Finally, soft dollar conditions fuelled strength across the commodity spectrum. Oil gained 7% and hovered around $48/barrel as encouraging vaccine developments raised the specter for a revival in transport demand and largely overshadowed near-term risks emanating from rising caseloads and tighter curbs on activity, while ongoing supply discipline from the consortium of OPEC producers also placed a sturdy floor under prices. Copper powered to a seven-year high as robust economic recoveries in the U.S. and China bolstered demand prospects for the world's top consumers of the industrial metal, while gold advanced on the heels of the weaker dollar and capped the year with its biggest annual gain in a decade.

Economic Overview

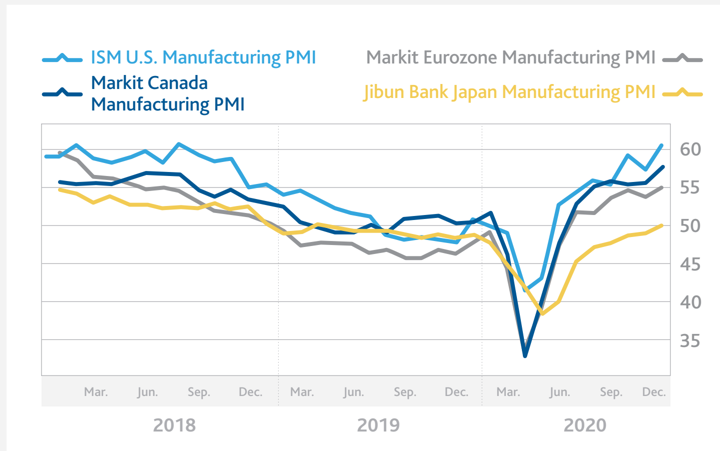
USA

The U.S. economy held firm at the end of 2020 even in the face of soaring Covid-19 infections, with relative strength reflecting the lagged impacts of massive fiscal stimulus, a lighter approach to restrictions, and employment gains. While the record-breaking spike in new virus cases is likely to dampen economic prospects early-on in 2021, weakness should prove short-lived given a number of important tailwinds that should inevitably make way for a sharp snapback in activity - namely the accelerated vaccine rollout, the abundance of monetary and fiscal stimulus, and the vast amounts of pent-up savings that are ripe for spending. Fortunately in the interim, lawmakers approved a new round of fiscal aid to bridge the gap between the raging pandemic and the post-vaccine economy, with the $900 billion package including $600 stimulus cheques, extended unemployment benefits, and support for small businesses.



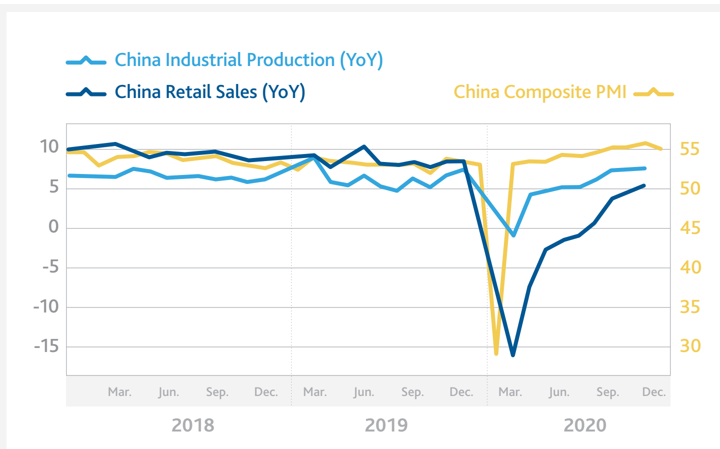
INTERNATIONAL

The global factory sector has demonstrated a growing resilience to the pandemic. The Global Manufacturing Purchasing Managers' Index (PMI) held steady at levels consistent with healthy expansion in December, revealing a constructive outlook heading into the new year. The breadth of the improvement across the globe was notable, with the U.S., Canadian, and European gauges all improving sequentially from the previous month, while Japan's index rose to the 50-threshold after 19 consecutive months in contraction terrain. While the economic trajectory is likely to be choppy in the coming months given the intensification of the outbreak and renewed restrictions to curb its spread, services spending should bounce back forcefully as populations get inoculated and larger parts of the economy reopen, making way for an all-encompassing recovery later in 2021.



EMERGING

The Chinese activity data revealed that the economy gained further ground towards year-end, thanks to robust demand both at home and abroad. Indeed, China is benefiting from its status as manufacturer to the world, with exports surging higher in recent months. Moreover, consumers are beginning to contribute more meaningfully to the factory-led recovery given the revival in confidence and lower levels of unemployment. Meanwhile, the forward-looking PMI data indicated that the Chinese economy stabilized at healthy levels at the end of 2020. The official manufacturing PMI edged down to 51.9 in December from a three-year high of 52.1 in November, while the non-manufacturing gauge dropped to 55.7 (from 56.4). Importantly, the figures remain decisively above the 50-mark that divides expansion from contraction and at a level consistent with solid growth heading into 2021.



Economic Scenarios

Main Scenario | Rapid Recovery

Probability **55%**

Our base case scenario calls for a swift return to normality in 2021. Several safe and effective vaccines prove successful in quashing the pandemic and are deployed in a timely manner, which allows for an accelerated reopening of larger parts of the global economy and a faster normalization in both consumer and business spending behaviours in the latter stages of the first half of 2021. As the wider population gets inoculated, both isolationism and social distancing measures abate and sentiment improves drastically in accordance. As a result, the animal spirits revive themselves and economic activity snaps back dramatically at a rapid pace during the first half of 2021 as pent-up demand is unleashed, particularly given that savings remain extraordinarily elevated across the globe. Meanwhile, the lagged impacts from the flood of monetary and fiscal stimulus already in place inevitably amplifies the rebound through 2021 and beyond. As a new cycle of robust and above-trend growth ensues and closes the output gap by year-end, newly announced stimulus measures are unlikely (and unnecessary) in this optimistic scenario.

Scenario 2 | Subdued Recovery

Probability **30%**

The emergence of multiple viable vaccines brings about a certain degree of confidence that the end of the pandemic is in sight, which greatly reduces the likelihood and the necessity for draconian lockdown measures beyond mid-2021. However, periodic setbacks on the road to immunity (namely logistical issues) push the timeline to widespread inoculation further out into the back half of the year, which ultimately restrains the magnitude of the recovery in the first half of 2021. As it takes longer to gain control over the propagation of the virus, social distancing behaviours linger-on and health fears prompt some reluctance from consumers and businesses to re-engage fully. Meanwhile, the global economy takes longer to reopen fully, while some lighter, localized confinement measures remain in place and dampen the growth trajectory in the first part of the year. As the economy takes longer to return to pre-COVID levels under this subdued recovery scenario, monetary and fiscal stimulus is almost certain to remain extremely accommodative over the 12-18 month time horizon.

Scenario 3 | Economic Relapse

Probability **15%**

The unrelenting spread and mutation of the coronavirus ultimately overwhelms vaccination efforts and engulfs the medical system, while unforeseen vaccine-related setbacks and questions about their efficacy derails the nascent recovery through 2021. Failure to contain the rampant outbreak morphs into the return of strict countermeasures and sends the global economy back into a full-blown recession. Specifically, virus mitigation efforts from governments that include quarantines, work stoppages, and restricted mobility fuels a steep contraction in global economic activity, with fearful consumers and businesses remaining isolated and reluctant to spend. 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 year. However, the fragile state of the economy and stubbornly-elevated unemployment ensures that both monetary and fiscal policy remain expansionary, which helps to alleviate any permanent damage in this calamitous scenario.

Forecasts for the next 12 months

SCENARIOS	DEC. 31, 2020	RAPID RECOVERY	SUBDUED RECOVERY	ECONOMIC RELAPSE
PROBABILITY		55%	30%	15%
GDP GROWTH 2021				
Global	5.20%	6.00%	4.50%	-4.50%
Canada	4.40%	6.00%	3.00%	-5.00%
U.S.	3.90%	7.00%	3.50%	-3.50%
INFLATION (HEADLINE Y/Y)				
Canada	1.00%	2.00%	1.50%	0.50%
U.S.	1.20%	2.00%	1.50%	0.50%
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	0.68%	1.25%	0.75%	0.50%
U.S. Government	0.91%	1.40%	0.85%	0.60%
PROFIT ESTIMATES (12 MONTHS FORWARD)				
Canada	1020	1100	975	850
U.S.	165	180	160	150
EAFE	125	120	110	90
EM	84	85	70	55
P/E (FORWARD 12 MONTHS)				
Canada	17.1X	17.5X	17.0X	15.0X
U.S.	22.7X	21.0X	22.0X	16.0X
EAFE	17.1X	18.0X	17.0X	15.0X
EM	15.3X	17.5X	16.0X	13.0X
CURRENCIES				
CAD/USD	0.79	0.80	0.74	0.65
EUR/USD	1.22	1.24	1.15	1.00
USD/JPY	103.25	100.00	105.00	110.00
COMMODITIES				
Oil (WTI, USD/barrel)	48.52	50.00	40.00	20.00
Gold (USD/oz)	1895.10	1800.00	1900.00	2100.00

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.

Portfolio Strategy

Matrix of Expected Returns

SCENARIOS	RAPID RECOVERY	SUBDUED RECOVERY	ECONOMIC RELAPSE
PROBABILITY	55%	30%	15%
Money Market	0.3%	0.3%	0.3%
Canadian Bonds	-2.3%	0.4%	2.5%
Canadian Equity	10.4%	-4.9%	-26.9%
U.S. Equity	-1.2%	-0.5%	-22.8%
International Equity	-1.3%	-7.6%	-24.1%
Emerging Market Equity	13.1%	-8.0%	-33.1%
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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