Market Update

Fiera Capital Global Asset Allocation

FEBRUARY 2021

FIERA CAPITAL

After a solid start to the new year, sentiment deteriorated and the global equity market rally stalled-out even as the ramped-up global vaccination campaign and the prospect for increased U.S. fiscal spending emboldened calls for a rapid recovery. Even a dovish-leaning bias from the Federal Reserve wasn't enough to halt the pullback after Chair Powell vowed to keep the monetary taps wide open for an extended time. Instead, investors took some pause to navigate the tug-of-war between economic recovery optimism and the immediate challenges and uncertainties posed by the pandemic. Meanwhile, an explosion of speculative retail trading activity in the small cap space sparked some volatility in late-January, with the retail-driven short-squeeze roiling the hedge fund industry and forcing some deleveraging at month-end.

FINANCIAL MARKET DASHBOARD				
	JAN. 29, 2021	JAN.	YTD	1 YEAR
EQUITY MARKETS		% PRICE CHANGE (LC)		
S&P 500	3714	-1.11%	-1.11%	15.15%
S&P/TSX	17337	-0.55%	-0.55%	0.11%
MSCI EAFE	2124	-1.09%	-1.09%	6.54%
MSCI EM	1330	2.97%	2.97%	25.15%
FIXED INCOME (%)		BASIS POINT CHANGE		
U.S. 10 Year Treasury Yield	1.07	15.2	15.2	-44.1
U.S. 2 Year Treasury Yield	0.11	-1.2	-1.2	-120.4
U.S. Corp BBB Spread	1.12	3.0	3.0	-20.0
U.S. Corp High Yield Spread	3.24	-3.0	-3.0	-77.0
CURRENCIES		% PRICE CHANGE		
CAD/USD	0.78	-0.33%	-0.33%	3.61%
EUR/USD	1.21	-0.65%	-0.65%	9.40%
USD/JPY	104.68	1.38%	1.38%	-3.39%
COMMODITIES		% PRICE CHANGE		
WTI Oil (USD/bbl)	52.20	7.58%	7.58%	1.24%
Copper (USD/pound)	3.56	1.05%	1.05%	41.28%
Gold (USD/oz)	1847.30	-2.52%	-2.52%	16.70%

Global equity markets lost some steam in January, with the MSCI All Country World slipping 0.5% during the month. Regionally speaking, developed markets assumed the brunt of the weakness and underperformed their developing counterparts. Both the S&P 500 and the MSCI gauge of international equities shed 1.1%, while the S&P/TSX slid more modestly (-0.6%). By contrast, emerging market stocks defied the downward move and generated positive results (+3.0%), with Chinese equities leading the global performance charge (+7.4%) in January.

Somewhat surprising was that fixed income markets did not act as a hedge in the environment of wavering risk appetite. Instead, bond markets took their cue from the improved global growth trajectory and the prospect for additional U.S. fiscal stimulus, which saw investors boost their expectations for inflation and pushed the long-end of the curve higher. In contrast, the short-end remained pinned lower as central banks reinforced their pledges for unrelenting support. Specifically, the U.S. 10 year treasury yield backed-up 15 basis points to 1.07%, while the 2 year treasury yield declined by 1 basis point to 0.11%. Consequently, the yield curve steepened, with the spread between the ten and two-year treasury yield rising to 95 basis points, the highest since mid-2017. In the end, fixed income markets generated a negative return in January, with government bonds leading the monthly decline.

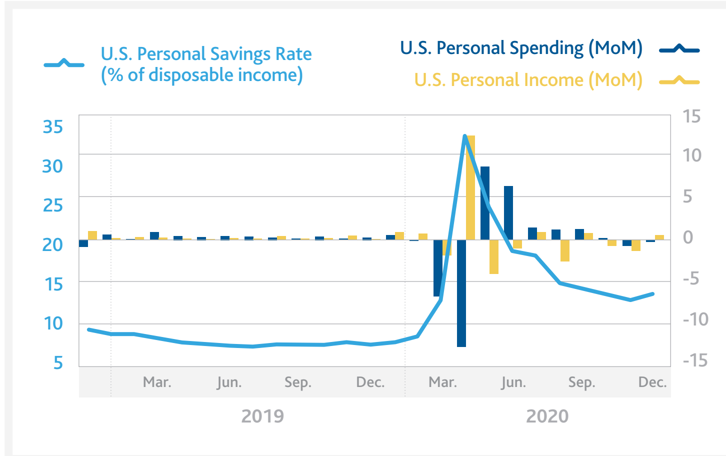
The U.S. dollar reversed course in January as unnerved investors flocked to the safe haven currency. In turn, underlying strength in the greenback weighed on the Euro, Canadian dollar, and the yen. The pound managed to eke out a small gain as Britain's vaccine progress and the long-awaited Brexit deal tempered wagers for negative interest rates from the Bank of England. Meanwhile, the Chinese yuan soared higher as tightening liquidity conditions drove the money-market rate to its highest in almost six years.

Commodity markets produced some mixed results. Oil prices powered higher as signs of dwindling U.S. stockpiles and ongoing discipline from OPEC and its allies overshadowed the lacklustre near-term demand backdrop. Indeed, the OPEC consortium estimated that they implemented 99% of their agreed production curbs in January. Copper prices held firm amid robust demand trends in China and ongoing signs of a tightening supply backdrop. Finally, gold lost some ground even as sentiment faltered, with higher treasury yields and the bounce in the U.S. dollar weighing on bullion prices in January.

Economic Overview

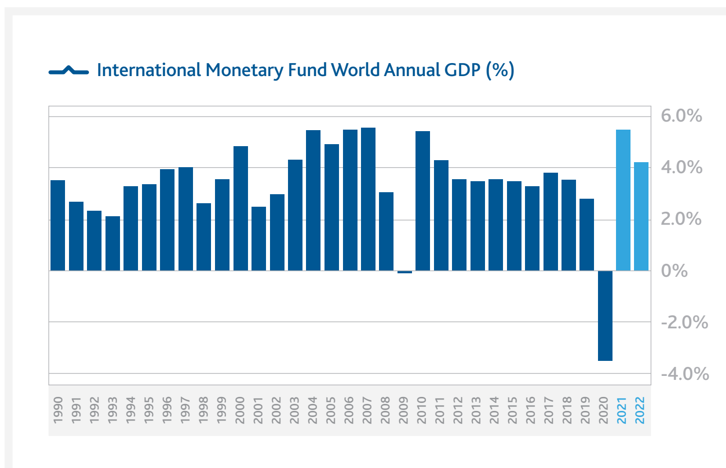
USA

The U.S. economy continued to regain some ground in the final quarter of 2020, albeit at a more moderate pace following the record bounce in the third quarter. At the end of the year, evidence of the pandemic was clear as households turned cautious given the spike in new virus cases and tighter restrictions to stem its spread. Indeed, personal spending declined for a second straight month in December. That being said, personal incomes grew by more than expected thanks to increased government transfer payments following the passage of the $900 billion pandemic relief package at year-end. As a result, the personal savings rate rose for the first time since April and held well-above its pre-pandemic average. Fortunately, the latest pullback in consumer spending is likely to prove short-lived. While near-term spending patterns are likely to waver as virus trends keep consumers close to home, momentum should rebuild as vaccinations broaden and as additional fiscal stimulus measures take hold, which should make way for a sharp revival in activity in the spring as consumers re-engage and unleash their pent-up savings.



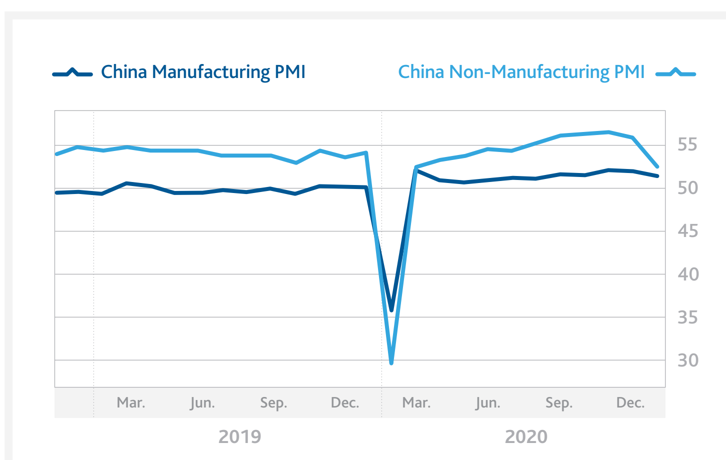
INTERNATIONAL

The International Monetary Fund (IMF) raised its global growth forecast for 2021, wagering that mass deployment of vaccines and additional policy stimulus will counteract the near-term challenges stemming from the pandemic. Global GDP is expected to soar 5.5% in 2021, faster than the previous projection of 5.2%. Much of the upgrade was attributed to the U.S. and Japan, which offset lower growth forecasts for the Eurozone and the United Kingdom. Specifically, the IMF forecasts that the U.S. economy will grow 5.1% in 2021 (from 3.1%), thanks to the recently-passed $900 billion relief plan as well as President Biden's proposal for another $1.9 trillion in fiscal aid. Japan also saw a significant upward revision to 3.1% (from 2.3%), also a result of its own fiscal support. By contrast, the Eurozone forecast was cut to 4.2% (from 5.2%) and the U.K forecast was cut to 4.5% (from 5.9%) given the worrisome virus trends that spurred new (and extended) lockdowns across Europe. Finally, China's 2021 growth estimate eased to a still-robust 8.1% (from 8.2%).



EMERGING

As the new year kicked-off, China's efforts to control the resurgence of Covid-19 undercut the recovery that's been one of the bright spots in the world economy. The official Purchasing Managers' Indices (PMI) pulled-back in January and signaled a pause in China's globe-leading recovery. While some weakness was expected ahead of the Chinese Lunar New Year holiday, the recent Covid outbreak, renewed containment measures, and the slow rollout of their vaccines saw Chinese business confidence cool somewhat. The composite PMI fell to 52.8 in January (from 55.1 in December). Looking at the details, the manufacturing PMI fell to 51.3 (from 51.9), while the non-manufacturing gauge fell by a steeper 3.3 points to 52.4 (from 55.7). Not surprisingly, the services sector assumed the brunt of the Covid-induced pain given the newly implemented curbs on travel and mobility. This latest softening in activity is likely to convince policymakers that now is not the time to make an abrupt shift in their supportive policy stance.



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	JAN. 29, 2021	RAPID RECOVERY	SUBDUED RECOVERY	ECONOMIC RELAPSE
PROBABILITY		**55%**	**30%**	**15%**
GDP GROWTH 2021				
Global	5.50%	6.00%	4.50%	-4.50%
Canada	4.40%	6.00%	3.00%	-5.00%
U.S.	5.10%	7.00%	3.50%	-3.50%
INFLATION (HEADLINE Y/Y)				
Canada	0.70%	2.00%	1.50%	0.50%
U.S.	1.40%	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	0.89%	1.25%	0.75%	0.50%
U.S. Government	1.07%	1.40%	0.85%	0.60%
PROFIT ESTIMATES (12 MONTHS FORWARD)				
Canada	1033	1100	1050	850
U.S.	172	185	165	150
EAFE	125	130	120	90
EM	85	90	80	55
P/E (FORWARD 12 MONTHS)				
Canada	16.8X	17.5X	17.5X	15.0X
U.S.	21.5X	22.5X	22.5X	16.0X
EAFE	17.0X	18.0X	18.0X	15.0X
EM	15.6X	17.5X	17.5X	13.0X
CURRENCIES				
CAD/USD	0.78	0.82	0.77	0.65
EUR/USD	1.21	1.25	1.15	1.00
USD/JPY	104.68	100.00	105.00	110.00
COMMODITIES				
Oil (WTI, USD/barrel)	52.20	70.00	50.00	20.00
Gold (USD/oz)	1847.30	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	-1.3%	1.4%	3.5%
Canadian Equity	11.0%	6.0%	-26.5%
U.S. Equity	7.0%	1.6%	-22.2%
International Equity	5.2%	3.4%	-23.5%
Emerging Market Equity	13.1%	7.0%	-35.2%
Real Assets	7.0%	6.5%	5.0%

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.

Contact Us

North America			
MONTREAL **Fiera Capital Corporation** 1981 McGill College Avenue Suite 1500 Montreal, Quebec H3A 0H5 T 1 800 361-3499	**TORONTO** **Fiera Capital Corporation** 1 Adelaide Street East Suite 600 Toronto, Ontario M5C 2V9 T 1 800 994-9002	**CALGARY** **Fiera Capital Corporation** 607 8th Avenue SW Suite 300 Calgary, Alberta T2P 0A7 T 403 699-9000	info@fieracapital.com fiera.com
NEW YORK **Fiera Capital Inc.** 375 Park Avenue 8th Floor New York, New York 10152 T 212 300-1600	**BOSTON** **Fiera Capital Inc.** One Lewis Wharf 3rd Floor Boston, Massachusetts 02110 T 857 264-4900	**DAYTON** **Fiera Capital Inc.** 10050 Innovation Drive Suite 120 Dayton, Ohio 45342 T 937 847-9100	**LOS ANGELES** **Bel Air Investment Advisors** 1999 Avenue of the Stars Suite 3200 Los Angeles, California 90067 T 1 877 229-1500

Europe		Asia	
LONDON **Fiera Capital (UK) Limited** Queensberry House, 3 Old Burlington Street, 3rd Floor, London, United Kingdom W1S 3AE T +44 (0) 207 409 5500	**FRANKFURT** **Fiera Capital (UK) Limited** Walther-von-Cronberg-Platz 13 Frankfurt, Germany 60594 T +49 69 9202 0750	**HONG KONG** **Fiera Capital (Asia) Hong Kong Limited** Suite 3205, No. 9 Queen's Road Central, Hong Kong T 852-3713-4800	**SINGAPORE** **Fiera Capital (Asia) Singapore Pte. Ltd.** 6 Temasek Boulevard #38-03 Suntec Tower 4 Singapore 038986