# Macroeconomic Landscape

## Global Growth

The global economic outlook has brightened considerably given the emergence of several viable vaccines to quell the pandemic, which should pave the way for a swift return to normalcy in 2021.

### Canada

The Canadian economy bounced back assertively in the third quarter, though momentum has faded as governments were forced to reimpose restrictions to stem the outbreak. Vaccine deployment should be critical in reinvigorating confidence and driving spending through 2021, with swelling savings accentuating the recovery. Importantly, the Canadian government has vowed to keep the fiscal taps open in order to alleviate the pain for the private sector, while the Bank of Canada has also pledged its continued support.

### United States

The US economy has held firm even in the face of soaring infections and nationwide restrictions, with relative strength reflecting the lagged impacts of unprecedented fiscal stimulus. The consumer remains a dominant force, with job gains and elevated savings setting the stage for a sharp revival in spending, while factory activity, business investment and housing are also bright spots. Encouragingly, lawmakers agreed on a new round of fiscal aid to bridge the gap between the pandemic and the post-vaccine economy.

### International

The European economy has been challenged given its heavy reliance on services, as governments reinstated lockdowns targeted towards the high-touch leisure and hospitality space. Japan's economy also wobbled in the latest wave of infections, forcing the government's hand in approving further fiscal aid. However, Europe and Japan will not be left behind in the looming road to recovery, as vaccine rollouts, the reflationary policy impulse and robust demand from US and China boost these fragile economies.

### Emerging Markets

The Chinese economy remains a pillar of strength. Early containment of the virus positioned the world's second largest economy for an acceleration back to pre-COVID levels and cemented China's status as the only major economy to grow in 2020. Economic gains have been all-encompassing across both the factory and consumer space thanks to robust demand both at home and abroad. This vigorous landscape in China remains an important tailwind for the global economy in the coming year.

# Economic Outlook

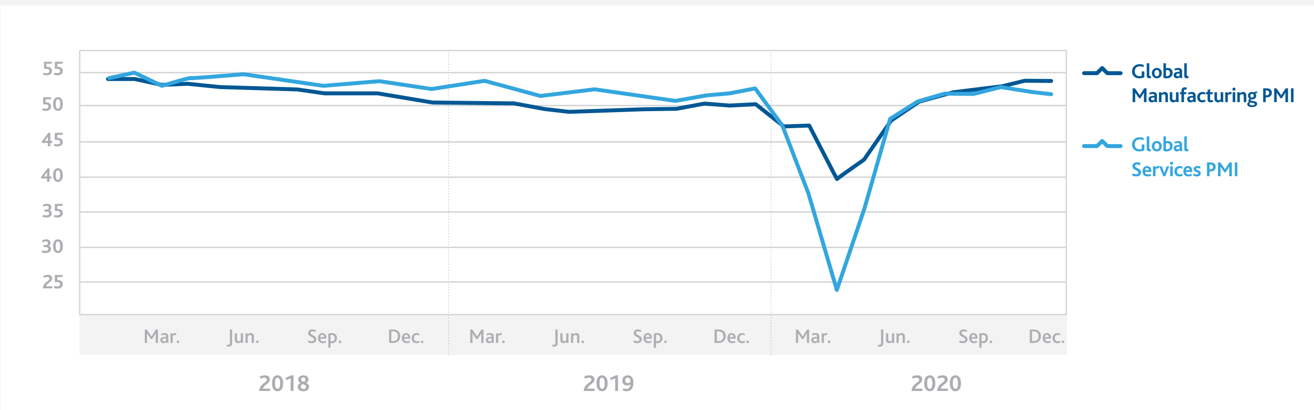
## The Stars are Aligned for a Brighter 2021

While 2020 was the year of the pandemic, the stage is being set for 2021 to be the year of the vaccine and the imminent recovery. The global economy has regained some notable traction, with the sheer abundance of policy support acting as a critical cushion even as COVID-19 continues to circulate across the globe. That being said, momentum is fading and the outlook has been clouded by the worrisome virus trends and newly reinstated restrictions to stem the outbreak.

However, there is reason for optimism. The unrelenting backstop from both central banks and governments will be instrumental in guiding the economy back to health. After months of discord, US lawmakers finally agreed on a $900 billion fiscal aid package, adding to the unprecedented arsenal of stimulus measures already in place. Moreover, multiple vaccine candidates have proven safe and effective in quashing the virus, suggesting that there is a light at the end of the tunnel.

As such, while the recovery may be restrained in the coming months, it should not be derailed; a profound economic revival is likely to unfold in 2021. As populations get inoculated and larger parts of the economy reopen, the powerful revitalization in confidence should unleash massive amounts of pent-up demand, particularly as savings remain extraordinarily elevated around the world. While the factory sector has demonstrated a growing resilience during the pandemic, the resumption in services sector activity should make way for more sweeping economic gains, emboldening our call for a rapid recovery in 2021.

### An All-Encompassing Global Economic Recovery




The global factory sector has proven resilient in the wake of the pandemic. As we approach widespread immunity and a corresponding return to normality, the battered services space (leisure/hospitality) should see a notable snapback as consumers re-engage and unleash their pent-up savings, paving the way for an all-encompassing economic recovery in 2021. In the interim, policymakers will prove instrumental in bridging the gap between the mutating virus and widespread inoculation, with both central banks and governments pulling out all the stops to ensure the pandemic doesn't derail the imminent recovery.

Source: Bloomberg

## Investment Strategy

Our expectation for an extended period of strong, above-trend growth and ample liquidity conditions should ultimately pave the way for further equity market upside, underscoring our preference for stocks over bonds heading into 2021. In the near term, markets may be susceptible to periodic bouts of volatility as investors gauge the tug-of-war between the rampant virus and the lagged timeline towards widespread vaccination and a return to normality. However, beyond the near term, the outlook for both the economy and stock markets remains extremely bright, particularly as the end of the pandemic is now in sight.

# 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.

# 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% | 5.4% | -26.9% |
| U.S. Equity | 6.1% | 0.8% | -22.8% |
| International Equity | 4.4% | 2.6% | -24.1% |
| Emerging Market Equity | 16.8% | 10.6% | -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.

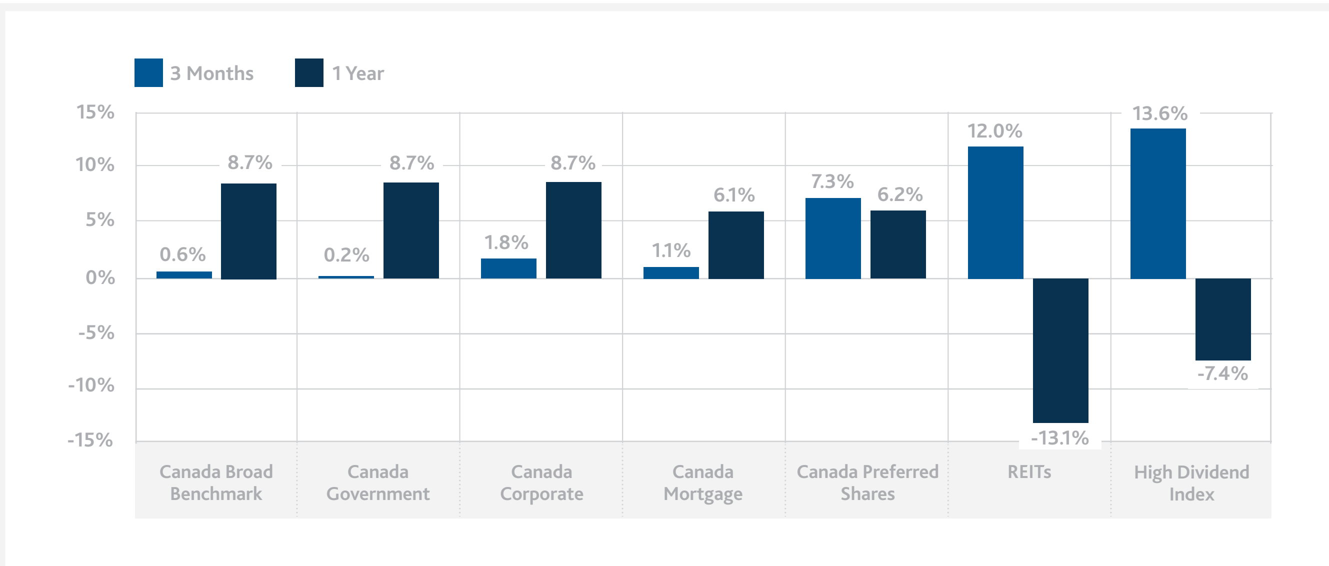
# Fixed Income Outlook

## Fixed Income Review

Fixed income markets eked out a modest gain in the fourth quarter. The yield curve bear-steepened. Bond markets took their cue from the improved global growth landscape and the prospect for increased fiscal spending, which saw the long end of the curve edge higher.

In contrast, the short end remained pinned lower as central banks reinforced their pledges for unrelenting support. Meanwhile, risk appetite flourished and credit spreads narrowed in response, with corporate bonds outperforming their government peers.

**Canadian Fixed Income Market Returns** | As of December 31, 2020




Source: Fiera Capital Corporation

## Investment Strategy

Return prospects for traditional core fixed income appear less appealing given our expectation for a vigorous economic revival in the coming year. Bond investors could find themselves in a vulnerable position with yields at these depressed levels, increasing the risk of capital loss.

We expect yield curves to steepen in a bond-bearish fashion. While central banks will keep rates anchored at the short end, our expectation for a robust recovery and a corresponding rise in inflation expectations should place some upward pressure on the long end of the curve. Moreover, policymakers' increased tolerance for higher inflation suggests that the path of least resistance for longer-term bond yields should be biased higher, amplified further by increased government borrowing to fund swelling deficits. That being said, we expect the backup in yields will be modest by historical standards and will not destabilize economic or financial conditions, with the tug-of-war between increasing government supply and central bank demand limiting any notable upside. Similarly, it is premature to worry about runaway inflation given the environment of overwhelming slack and elevated unemployment.

Meanwhile, corporate credit remains attractive due to the boisterous growth backdrop and the central bank backstop that will ultimately mitigate default risks and place a cap on spreads, which when taken together has extended the runway for the corporate credit cycle.

In this environment, we recommend that investors maintain a short duration and position for a mildly steeper yield curve, with a preference for corporate versus government exposures and inflation-linked versus nominal bonds. As traditional core fixed income strategies are unlikely to play the same role of providing stability and income generation in the portfolio setting, the inclusion of non-traditional income strategies should be considered due to their solid income-generating capabilities, their ability to protect against inflation and their low correlation to traditional asset classes. Indeed, government bonds are an expensive source of portfolio insurance and will prove increasingly inadequate in hedging any downside risks given the low starting point for rates.

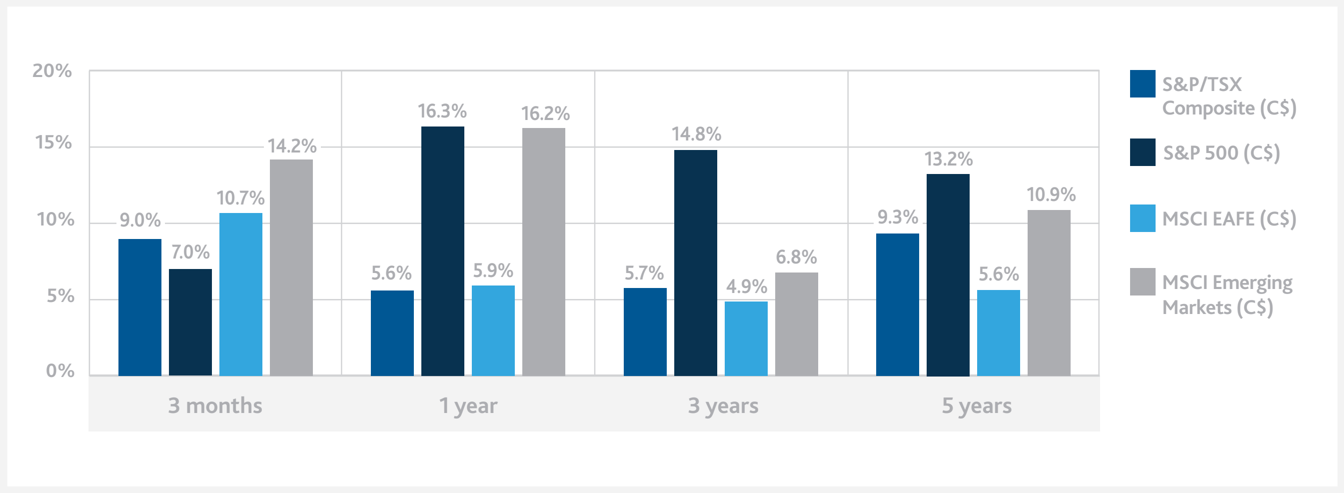
# Equity Outlook

## Equity Review

Global equity markets ended the year on a strong note and breached all-time highs during the fourth quarter. The immense deluge of policy stimulus was critical in reviving the economy and underpinning sentiment, even as the coronavirus proliferated around the world.

Meanwhile, optimism flourished after the unveiling of positive efficacy results from three COVID-19 vaccine candidates allowed investors to brace for an end to the pandemic, which propelled the global market rally into year end.

**Equity Market Returns** | As of December 31, 2020




Source: Fiera Capital Corporation

## Investment Strategy

The growth outlook has improved markedly given the prospect for imminent vaccine rollouts. Moreover, bond yields are forming a bottom, inflation expectations are on the rise, the US dollar is weakening and commodity prices are pushing higher. In this reflationary environment, it is likely that equities will make new highs – which underscores our overweight allocation to stocks as we enter the new year.

We expect the laggards of 2020 to assume leadership in 2021, with a preference for the cyclically biased, value-oriented corners of the market where, in our view, there is still a compelling valuation proposition. After the narrow, growth-dominated upswing through most of 2020, we expect market gains to broaden out in 2021 as the increased likelihood of stronger and more visible growth sparks a rotation towards the underappreciated sectors of the market, such as financials, industrials and resources. As these sectors have a larger representation outside of the US, we expect more upside in markets that contain a higher cyclical exposure, such as the Canadian equity market.

Similarly, gains in 2020 were predominately driven by multiple expansion as investors bid up what they were willing to pay for equities in the environment of abundant monetary policy stimulus. However, we expect earnings to take the baton and drive the next phase of equity market upside in 2021, with positive implications for the economically sensitive sectors whose fortunes are tied to the health of the global economy. While the economic revival has fuelled a profound rebound in corporate earnings, there is still room for positive surprises given that upward revisions in the aftermath of the vaccine news have been limited thus far.

While a near-term consolidation remains a possibility after the strong run-up in equity prices into year end, investors should look beyond any temporary setbacks and towards the post-pandemic landscape. The equity rally has some staying power thanks to the increasingly durable global growth backdrop and the reflationary policy impetus at hand, which should pave the way for another year of equity outperformance in 2021.

# Commodities and Currencies

## CAD / USD


The US dollar edged lower in the fourth quarter as the favourable cyclical outlook and the ebullient mood in the market sapped demand for the greenback. In contrast, the Canadian dollar recovered fully from the depths of the health crisis and traded near a two-year high. While softer US dollar conditions were largely to blame, the sharp rally in crude prices sent the loonie soaring at year end. The path of least resistance for the greenback remains lower, in our view. The countercyclical nature of the US dollar implies underperformance as the global economy continues to normalize, risk aversion ebbs and the reflationary trade gains further traction in 2021. The secular downtrend in the US dollar should buttress the Canadian dollar, while our expectation for widespread strength in the commodity space and superior two-year Canadian yields should be key tailwinds for the loonie over the next 12 to 18 months.

## Oil


After plunging into negative terrain back in April, crude oil prices staged an impressive recovery and hovered just below the $50 USD mark as 2020 came to a close. On the demand front, encouraging vaccine developments and the possibility of a rejuvenation in transport demand largely overshadowed near-term risks emanating from rising caseloads and tighter curbs on activity. Adding to the bullish tone were hopes for another round of fiscal stimulus as US lawmakers moved closer to an accord. Meanwhile, the OPEC consortium of producers reached a compromise to gradually taper output curbs by less than expected beginning in January. Our expectation for a rapid revival in global growth should reignite demand for crude and help to alleviate the massive glut in the oversupplied market. At the same time, ongoing discipline from OPEC and its allies in keeping output restrained should help markets to find a better balance and ultimately place a floor under prices.

## Gold


Gold stumbled in the fourth quarter as growing hopes that the end of the pandemic is in sight curbed demand for the safe haven metal. The macroeconomic backdrop remains supportive for bullion. The Federal Reserve's increased tolerance for higher inflation and an extended period of rock-bottom policy rates will keep real yields pinned lower, while a structurally weaker US dollar and bullion's appeal as a geopolitical and inflation hedge should also lend some support.

## Copper


Copper powered to a seven-year high as robust recoveries in the US and China bolstered demand prospects for the top two consumers of the industrial metal. Indeed, factory's growing resilience in the wake of the pandemic was instrumental propping up prices. Considered a barometer for global growth, copper should thrive as the economy regains its footing, while soft US dollar conditions and a tightening supply backdrop should also buoy prices in the coming year.

Source: Bloomberg

# 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. | 1.40% | 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 | 0.68% | 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 | 1050 | 850 |
| U.S. | 165 | 185 | 165 | 150 |
| EAFE | 124 | 130 | 120 | 90 |
| EM | 84 | 90 | 80 | 55 |
| P/E (FORWARD 12 MONTHS) | | | | |
| Canada | 17.1X | 17.5X | 17.5X | 15.0X |
| U.S. | 22.7X | 22.5X | 22.5X | 16.0X |
| EAFE | 17.4X | 18.0X | 18.0X | 15.0X |
| EM | 15.4X | 17.5X | 17.5X | 13.0X |
| CURRENCIES | | | | |
| CAD/USD | 0.79 | 0.82 | 0.77 | 0.65 |
| EUR/USD | 1.22 | 1.25 | 1.15 | 1.00 |
| USD/JPY | 103.25 | 100.00 | 105.00 | 110.00 |
| COMMODITIES | | | | |
| Oil (WTI, USD/barrel) | 48.52 | 70.00 | 50.00 | 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.

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