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.

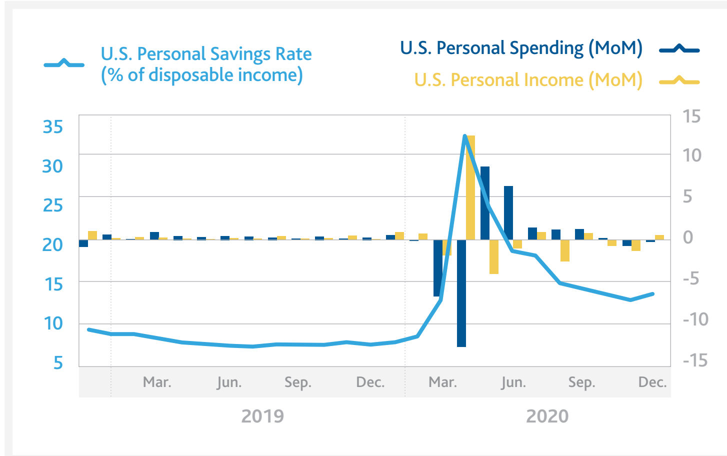
The U.S. dollar reversed course in January as unnerved investors flocked to the safe haven currency. In turn, underlying strength in the greenback weighed on the Euro, Canadian dollar, and the yen. The pound managed to eke out a small gain as Britain's vaccine progress and the long-awaited Brexit deal 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

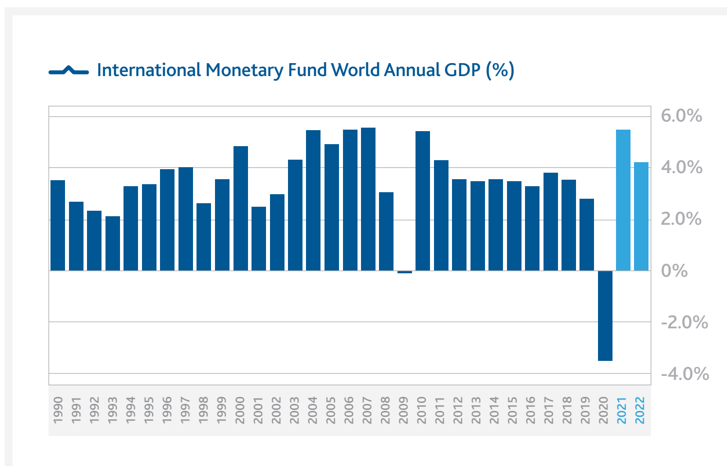
USA

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.



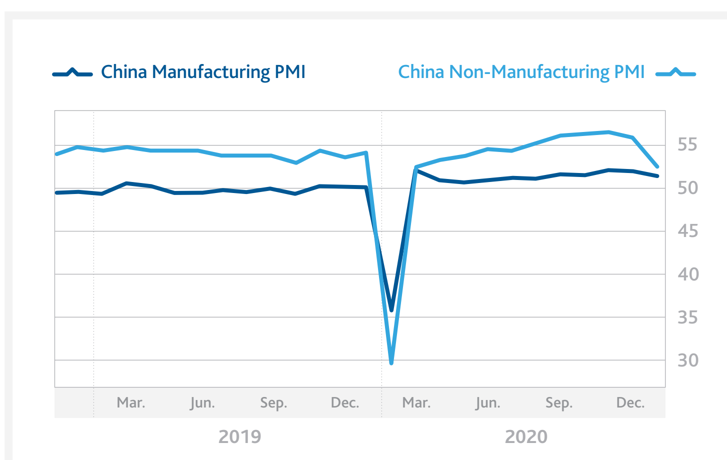
INTERNATIONAL

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.



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