TACTICAL ASSET ALLOCATION COMMITTEE MONTHLY COMMENTARY

AUGUST 2020

FIERA CAPITAL

In July, risk appetite was underpinned by further signs of a revival in global growth, the solid start to second quarter earnings season, and the abundance of fiscal and monetary stimulus – which when taken together overshadowed pessimism regarding the latest resurgence in Covid-19 cases. Encouragingly, European Union leaders approved a historic EUR750 billion crisis package in July, while US lawmakers are currently debating another $1 trillion in fiscal support to guide the world's largest economy back to health. Meanwhile, positive developments on the medical front also emboldened sentiment, with US infectious disease expert Anthony Fauci saying that its "reasonable" to expect a safe and effective vaccine by year-end.

FINANCIAL MARKET DASHBOARD

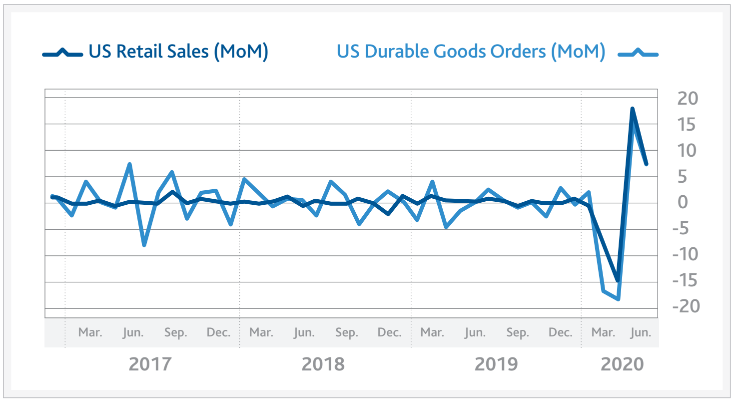
	JULY 31, 2020	JULY	YTD	1 YEAR
EQUITY MARKETS		% PRICE CHANGE (LC)		
S&P 500	3271	5.51%	1.25%	9.76%
S&P/TSX	16169	4.22%	-5.24%	-1.45%
MSCI EAFE	1820	2.23%	-10.64%	-4.05%
MSCI EM	1079	8.42%	-3.21%	4.04%
FIXED INCOME (%)		BASIS POINT CHANGE		
US 10 Year Bond Yield	0.53	-12.8	-138.9	-148.6
US 2 Year Bond Yield	0.11	-4.3	-146.4	-176.7
US Corp BBB Spread	1.46	-27.0	21.0	6.0
US Corp High Yield Spread	4.84	-135.0	157.0	100.0
CURRENCIES		% PRICE CHANGE		
CAD/USD	0.75	1.22%	-3.14%	-1.64%
EUR/USD	1.18	4.84%	5.04%	6.34%
USD/JPY	105.83	-1.95%	-2.56%	-2.71%
COMMODITIES		% PRICE CHANGE		
WTI Oil (USD/bbl)	40.27	2.55%	-34.05%	-31.26%
Copper (USD/pound)	2.87	5.69%	2.54%	7.58%
Gold (USD/oz)	1962.80	9.01%	28.87%	37.63%

Global equity markets advanced for a fourth straight month in July. The monthly gain helped the S&P 500 to record a small positive return so far in 2020. Second quarter earnings season got off to a healthy start, with over 80% of companies that reported exceeding previously lowered forecasts. Stellar results from the US technology titans boosted the Nasdaq and helped the S&P 500 outperform both the TSX and EAFE in July. However, emerging market equities outperformed their developed market peers as record fiscal and monetary stimulus boosted demand for riskier assets, while the weaker US dollar and a stronger recovery in China also drove developing nation stocks higher.

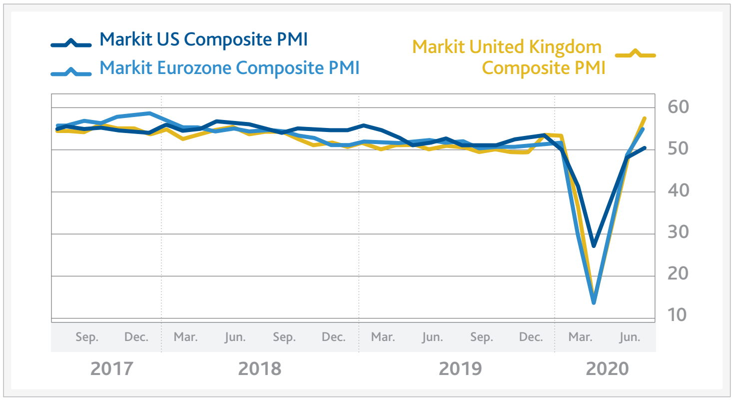
Fixed income markets also posted positive results. Yield curves bull-flattened as unrelenting appetite for longer-dated bonds drove yields lower. The 10 year treasury yield stumbled as policymakers wrangled over another stimulus package aimed at restoring emergency jobless benefits that expired at month-end, while some high frequency data revealed that the recovery faltered somewhat after several states halted their reopening plans. The Federal Reserve stepped-up and vowed to do whatever it takes to support the recovery, which added to the downside pressure in bond yields throughout the month. Meanwhile, the rebound in crude prices and speculation for a reacceleration in global growth prompted a revival in US inflation expectations, which drove real rates to new lows.

The greenback slid by the most in a decade in July amid declining treasury rates, record-low real yields, and buoyant risk appetite. The euro advanced to the highest level since May 2018 following the approval of the European Union's rescue plan, while the pound recouped its COVID-induced losses and posted its biggest monthly gain since 2009. The Japanese yen strengthened as its appeal as a haven grew, while the widespread move out of the US dollar and the latest rally in crude prices boosted the Canadian dollar.

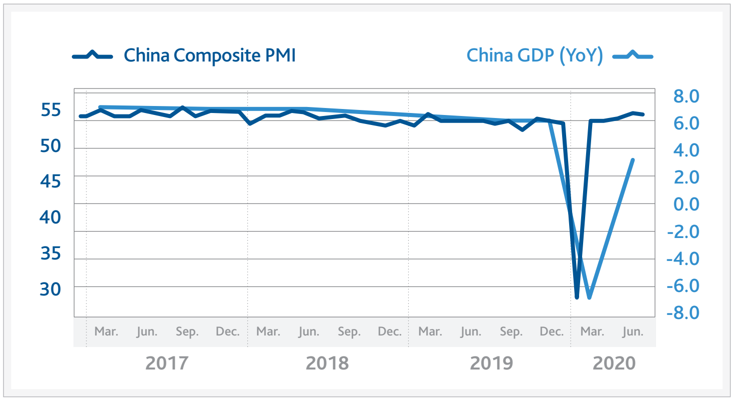
US dollar softness was a tailwind for the broad commodity spectrum in July. Gold thrived and hit fresh highs as softer dollar conditions and record-low real interest rates underpinned prices, while oil managed to hold above $40/barrel ahead of OPEC+ plans to return some supply to the market. Copper gained after Chinese factory data revealed ongoing momentum in the recovery for the world's largest consumer of the red metal, while stockpiles saw the biggest monthly drop since 2009 thanks to a revival in demand from both Asia and Europe.



After a record-breaking contraction in the second quarter, the US economy is regaining some notable ground. Approximately one-third of the 22 million plunge in payrolls have been recouped and unemployment has declined, durable goods orders have stabilized, and retail sales have recovered back to their pre-pandemic levels after outsized gains in May and June.



Developed economies are following China's lead in the post-pandemic recovery. The composite index of manufacturing and services activity for the US, Europe, and the UK improved markedly in July and are now back in expansion terrain. The US composite PMI breached a six-month high, Europe's PMI climbed to its highest level since June 2018, and the UK gauge posted its strongest reading since 2015.



China GDP expanded 3.2% from a year earlier in the second quarter after the 6.8% contraction during the first quarter. Meanwhile, the recovery maintained some momentum heading into the second half of the year, with the Composite PMI holding firm in July. The underlying factory gauge edged higher as global demand for Chinese goods reaccelerated, while the non-manufacturing index remained sturdy as infrastructure spending reignited the construction sector.

USA

The US economy suffered its sharpest contraction on record in the second quarter, underscoring the extraordinary impact from government-mandated shutdowns and stay-at-home orders that brought the world's largest economy to an abrupt halt. US GDP plunged 32.9% on an annualized basis after the prior period's 5% slide. Personal spending, which makes up about two-thirds of GDP, slumped an annualized 34.6% as the pandemic left millions of Americans out of work. The good news is that the recovery is well underway, with employment, spending, and production all rebounding forcefully since the economy reopened and as massive federal stimulus reached the wallets of American consumers. Indeed, retail sales, nonfarm payrolls, durable goods orders, and housing activity have all bounced back in a V-shaped fashion through May and June.

INTERNATIONAL

The narrative for a synchronized revival in global growth remains firmly intact as major economies continue to fire up their engines after the economic stoppage earlier this year. The purchasing manager (PMI) surveys for most major developed market economies improved sequentially in July and managed to breach the 50-threshold that divides expansion from contraction. The gains were fairly broad based across both the services and manufacturing sectors, while the advance in the forward-looking surveys of expectations revealed that businesses remain upbeat about their growth prospects in the coming year. Taken together, the revitalization in the global economy and the lagged impact of unprecedented global stimulus measures should bolster both earnings expectations and stock markets alike, with the pro-cyclical and value-oriented space reaping the benefits of the synchronous global economic rebound.

EMERGING

The Chinese economy bounced back strongly and returned to growth in the second quarter as the successful containment of the coronavirus and an abundance of government support policies emboldened the economic revival. However, the post-COVID recovery has been uneven, with production outpacing consumption. The activity data for June revealed this mixed backdrop. While industrial production accelerated 4.8% y/y, retail sales remained sluggish and declined 1.8% y/y - marking the fifth straight month of contraction as wary consumers remained reluctant to re-engage in spending. Meanwhile, the official gauges of China's economic health continued to demonstrate some notable resilience heading into the second half of the year, with the purchasing manager surveys remaining firmly in expansion territory in July thanks to government-led investment initiatives and a revival in demand from China's major trading partners.

FIERA CAPITAL

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 02109 **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

London Fiera Capital (UK) Limited Queensberry House 3 Old Burlington Street 3rd Floor London, United Kingdom W1S 3AE **T** +44 20 7518 2100	**Frankfurt** Fiera Capital (UK) Limited Walther-von-Cronberg-Platz 13 Frankfurt, Germany 60594 **T** +49 69 9202 0750

ASIA

Hong Kong Clearwater Capital Partners Suite 3205 No. 9 Queen's Road Central Hong Kong **T** 852-3713-4800	**Singapore** Clearwater Capital Partners 6 Temasek Boulevard #38-03 Suntec Tower 4 Singapore 038986