

# Fiera Capital Global Asset Allocation

MONTHLY UPDATE: SEPTEMBER 2023



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Extreme optimism throughout 2023 gave way to growing skepticism in August as investors contemplated the trajectory for monetary policy. Volatility resurfaced and most asset classes ended the month lower as the higher-for-longer interest rate narrative took hold following data that showed ongoing resilience in the US economy. Meanwhile, Chair Powell struck a balanced tone in his Jackson Hole appearance. He repeated that officials are “prepared to raise rates further if appropriate” but stressed that the central bank would “proceed carefully” and would be guided by the economic data. On the latter, the risk-off mood subsided towards month-end after a series of softer US economic data revived wagers that the Federal Reserve is done raising rates, which buttressed both stock and bond markets towards month-end and tempered some of their earlier losses.

FINANCIAL MARKET DASHBOARD				
	AUGUST 31, 2023	AUGUST	YTD	1 YEAR
<b>EQUITY MARKETS</b>		<b>% PRICE CHANGE (LC)</b>		
S&P 500	4508	-1.77%	17.40%	13.97%
S&P/TSX	20293	-1.62%	4.68%	4.98%
MSCI EAFE	2109	-4.10%	8.50%	14.60%
MSCI EM	980	-6.36%	2.50%	-1.39%
<b>FIXED INCOME (%)</b>		<b>BASIS POINT CHANGE</b>		
U.S. 10 Year Treasury Yield	4.11	14.9	23.3	91.6
U.S. 2 Year Treasury Yield	4.86	-1.4	43.7	137.0
U.S. Corp BBB Spread	1.65	0.0	-21.0	-42.0
U.S. Corp High Yield Spread	4.31	-3.0	-78.0	-91.0
<b>CURRENCIES</b>		<b>% PRICE CHANGE</b>		
CAD/USD	0.74	-2.35%	0.34%	-2.80%
EUR/USD	1.08	-1.40%	1.29%	7.85%
USD/JPY	145.54	2.28%	11.00%	4.74%
<b>COMMODITIES</b>		<b>% PRICE CHANGE</b>		
WTI Oil (USD/bbl)	83.63	2.24%	4.20%	-6.61%
Copper (USD/pound)	3.77	-5.88%	-1.00%	7.22%
Gold (USD/oz)	1947.00	-1.19%	6.61%	13.40%

Source: Bloomberg, as of August 31, 2023.

Global equity markets ended the month lower as the sharp backup in global bond yields sapped risk appetite and weighed on stock market valuations. The MSCI All Country World slid by 3.0% in August. Regionally speaking, all major benchmarks we track generated losses last month. The S&P/TSX (-1.6%) outperformed its global peers given a solid gain in the heavyweight energy sector. The S&P 500 wasn't far behind and retreated 1.8%, marking its first monthly decline since February. Elsewhere, the MSCI EAFE fell by 4.1%, while the MSCI gauge of emerging market stocks tumbled by 6.4%, led by China (-9.0%) as ongoing signs of a deteriorating economy were met with a lacklustre policy response.

Fixed income markets failed to act as a safe haven and also generated negative results in August. Global bond yields extended their upward climb as robust economic data challenged the view that central banks rates are peaking. Treasuries were a key driver of the global debt selloff as ongoing resilience in the US economy defied expectations that cumulative rate hikes would bring on a recession. As the macroeconomic narrative shifted away from recession, investor sentiment also swung back in favor of rates needing to stay higher for longer. Treasuries also came under pressure on expectations the US government will issue more bonds to plug widening federal deficits. On the latter, the surprise decision by Fitch Ratings to strip the United States of its AAA credit ranking in early August put a spotlight on the country's booming fiscal deficits. For the month, the FTSE Canada Bond Universe slipped by 0.2%, while the Barclays US Aggregate Bond Index shed 0.6%.

The US dollar advanced as investors braced for an environment of higher interest rates for longer than previously thought. The greenback was stronger against all of its major trading peers, with the Canadian dollar (-2.4%), euro (-1.4%), pound (-1.3%), and yen (-2.2%) all depreciating last month.

In commodity markets, crude oil managed to buck the global trend and gained for a third straight month after OPEC+ heavyweights Saudi Arabia and Russia extended production cuts and as US stockpiles sank, providing further evidence of a tightening physical market. Gold retreated on the back of surging US treasury yields that dampened the appeal of non-interest-bearing bullion – while copper stumbled lower amid fears about the outlook for growth and demand in top-consuming China.

# Economic Overview



## CANADA

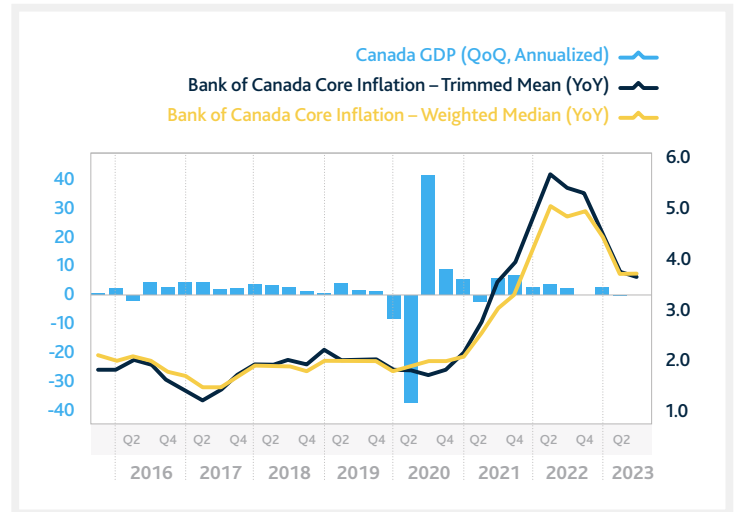
The Bank of Canada is stuck between a rock and a hard place. On the one hand, signs that economic growth is stagnating suggests that headwinds from cumulative rate hikes are now taking hold. Notably, the Canadian economy stalled-out in the second quarter. Gross domestic product unexpectedly contracted by a 0.2% annualized rate, far below the bank's estimate for a 1.5% annualized expansion. However, there has been little downward momentum in underlying inflation, with price growth still running significantly above the Bank of Canada's 2% inflation target. The Bank's preferred core inflation gauges are hovering at 3.5% y/y - while wage growth has remained especially elevated at 4-5% y/y. As widely expected, the Bank of Canada held rates steady at the September 6th gathering, but kept the door open to further rate hikes given the persistence of core inflation. The accompanying statement underscored the difficulty of returning inflation to target: "The longer high inflation persists, the greater the risk that elevated inflation becomes entrenched, making it more difficult to restore price stability."

## UNITED STATES

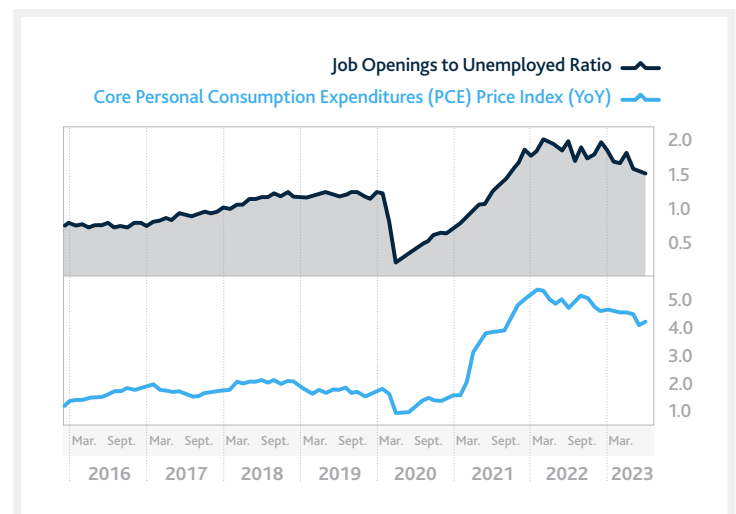
After demonstrating some surprising resilience in the wake of 525 basis points of rate hikes, the US economy has shown some early indications that momentum is waning. The latest nonfarm payrolls data revealed that the labor market is slowly coming into a better balance. The pace of hiring has moderated, labor force participation is on the rise, and the ratio of job openings to unemployed people has retreated to a two-year low. While welcome news for the Federal Reserve, the latest data on inflation has been more mixed. At 4.3% y/y, the Federal Reserve's preferred inflation gauge (the core personal consumption expenditures price index) remains over double the central bank's 2% objective - while "supercore" inflation (core services ex-housing) pushed up to 4.7% y/y, its highest rate since the beginning of this year. The apparent softening in the labor market may give the Federal Reserve room to pause this month. However, policymakers will need to see further evidence of cooling on both the labor market and inflation fronts over the coming months to stay on the sidelines.

## INTERNATIONAL

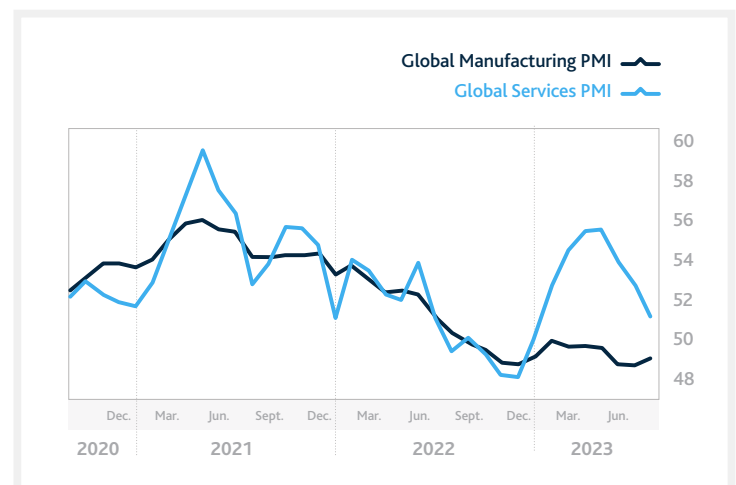
The global purchasing manager indices (PMI) produced some mixed results in August. While the factory slowdown appears to be stabilizing, economic weakness now appears to be spreading to the services side of the economy as tailwinds from pent-up services demand subside and the headwind from aggressive monetary policy tightening intensifies. The Global Manufacturing PMI ticked up to 49.0 in August from 48.6 in July. Still, the index held firmly in contraction terrain even as the pace of the slowdown eased. Meanwhile, the Global Services PMI retreated more meaningfully in August, falling to 51.1 from 52.7 in July. The Eurozone Services PMI dropped below the 50-line that divides expansion from contraction for the first time since December and the lowest level since February 2021 - while the China Non-Manufacturing PMI showed a more pronounced slowdown in the pace of services activity than anticipated. The underlying message is that while factory activity appears to be stabilizing, it is unlikely to counter the impacts on the aggregate economy from a deteriorating services sector.



Source: Bloomberg, as of August 31, 2023.



Source: Bloomberg, as of August 31, 2023.



Source: Bloomberg, as of August 31, 2023.

# Economic Scenarios



## Main Scenario | Stagflation

Probability **55%**

As policymakers are unable to simultaneously achieve their inflation and growth targets, they are forced to choose between the two and opt to prioritize the economy and live with above-target inflation. In our high probability “Stagflationary” scenario, well-anchored long-term inflation expectations and tentative signs of easing wage and price pressures allow the Federal Reserve to tolerate above-target inflation for longer, with the central bank abandoning its tightening campaign at levels that would avoid an outright contraction in growth. Global growth slows to below-potential levels, but global inflation remains elevated and above-target. So long as the economy is operating below its potential, supply-demand imbalances would subsequently rebalance and allow inflation to subside, albeit over a longer period of time. While less-dire than the hard landing recessionary scenario, the lingering risk of a self-fulfilling wage price spiral where wage and price setters increasingly orient themselves to higher inflation rates could potentially translate into even steeper rate hikes down the road and a prolonged period of economic stagnation.

## Scenario 2 | Deep Recession

Probability **30%**

In the hard landing recession scenario, stubbornly elevated inflation that proves increasingly entrenched triggers the continuation of aggressive monetary tightening that inevitably sparks a recession. The depth and magnitude of the recession ultimately hinges on how persistent inflation proves to be, and on how much pain policymakers are willing to inflict on the economy in order to bring inflation down to levels deemed acceptable. While goods prices subside, underlying “core” inflation proves to be more sticky and entrenched, with continued resilience in the labor market and consumer spending slowing the descent of wage and services inflation. Inflation expectations de-anchor and spiral higher in response, which forces central banks to prioritize tackling inflation in order to restore their inflation-control credibility, regardless of the economic fallout. As a result, central banks tighten monetary policy much more assertively and keep rates in restrictive terrain for longer. Policymakers are unlikely to pause the rate hike cycle until they see more convincing evidence that inflation is subsiding meaningfully, which when combined with the delayed impact of cumulative monetary tightening to date ultimately means that central banks will be hiking interest rates well into economic weakness, making way for a “Deep Recession.”

## Scenario 3 | Disinflation

Probability **15%**

In the “Disinflation” scenario, the economy proves to be much weaker than previously thought, which when combined with the disinflationary forces from cumulative monetary policy tightening and tighter credit conditions sends inflation spiraling lower towards 2% without dipping the economy into recession. This disinflationary impulse prompts central bankers to pause their tightening campaign in the back-half of 2023. By 2024, enough deceleration of economic activity will have occurred that the Federal Reserve eventually transitions from an on-hold monetary policy stance towards interest rate cuts. Consequently, the economy averts a hard landing economic scenario, and a new economic cycle begins in mid-2024.

# Forecasts for the Next 12-18 Months



SCENARIOS	AUGUST 31, 2023	STAGFLATION	DEEP RECESSION	DISINFLATION
<b>PROBABILITY</b>		<b>55%</b>	<b>30%</b>	<b>15%</b>
<b>GDP GROWTH</b>				
Global	2.70%	2.50%	1.00%	3.50%
Canada	0.80%	1.00%	-1.00%	2.00%
U.S.	0.60%	0.50%	-2.00%	2.50%
<b>INFLATION (HEADLINE Y/Y)</b>				
Canada	3.30%	3.50%	2.00%	2.50%
U.S.	3.20%	4.50%	2.50%	2.50%
<b>SHORT-TERM RATES</b>				
Bank of Canada	5.00%	5.00%	5.50%	3.50%
Federal Reserve	5.50%	5.50%	6.00%	4.00%
<b>10-YEAR RATES</b>				
Canada Government	3.56%	4.50%	5.00%	3.00%
U.S. Government	4.11%	4.50%	5.00%	3.50%
<b>PROFIT ESTIMATES (12 MONTHS FORWARD)</b>				
Canada	1429	1500	1300	1600
U.S.	238	240	200	260
EAFE	153	155	125	165
EM	72	80	65	85
<b>P/E (12 MONTHS FORWARD)</b>				
Canada	14.2X	14.5X	12.0X	15.5X
U.S.	18.9X	17.0X	15.0X	19.5X
EAFE	13.8X	14.0X	12.0X	16.0X
EM	13.6X	13.0X	11.0X	15.0X
<b>CURRENCIES</b>				
CAD/USD	0.74	0.85	0.75	0.80
EUR/USD	1.08	1.15	1.00	1.12
<b>COMMODITIES</b>				
Oil (WTI, USD/barrel)	83.63	130.00	90.00	100.00
Gold (USD/oz)	1947.00	2100.00	1900.00	2000.00

Source: Fiera Capital, as of August 31, 2023.

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. Past performance is not a guarantee of future results. Inherent in any investment is the potential for loss.

# Portfolio Strategy



## Matrix of Expected Returns (CAD)

SCENARIOS	STAGFLATION	DEEP RECESSION	DISINFLATION
<b>PROBABILITY</b>	<b>55%</b>	<b>30%</b>	<b>15%</b>
<b>TRADITIONAL INCOME</b>			
Money Market	5.0%	5.3%	4.3%
Canadian Bonds	-2.8%	-6.5%	6.7%
<b>NON-TRADITIONAL INCOME</b>			
Diversified Credit	8.0%	6.0%	7.0%
Diversified Real Estate	9.0%	4.0%	8.0%
Infrastructure	8.0%	5.0%	7.0%
Agriculture	8.0%	5.0%	7.0%
<b>TRADITIONAL CAPITAL APPRECIATION</b>			
Canadian Equity	7.2%	-23.1%	22.2%
U.S. Equity	-21.2%	-34.3%	4.1%
International Equity	-10.4%	-29.8%	15.8%
Emerging Market Equity	-7.6%	-28.0%	20.4%
<b>NON-TRADITIONAL CAPITAL APPRECIATION</b>			
Private Equity	12.0%	5.0%	15.0%
Liquid Alternatives	5.0%	0.0%	7.5%
CAD/USD	0.85	0.75	0.80

Source: Fiera Capital, as of August 31, 2023.

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## Current Strategy<sup>1</sup>

### TRADITIONAL AND NON-TRADITIONAL PORTFOLIOS

	MINIMUM	BENCHMARK	MAXIMUM	STRATEGY	+/-
Money Market	0%	5%	30%	20%	+15%
Canadian Bonds	5%	25%	45%	5%	-20%
Canadian Equity	10%	20%	40%	30%	+10%
U.S. Equity	0%	10%	20%	0%	-10%
International Equity	0%	10%	20%	0%	-10%
Emerging Market Equity	0%	5%	15%	5%	0%
Non-Traditional Income	5%	25%	45%	40%	+15%

### TRADITIONAL PORTFOLIOS

	MINIMUM	BENCHMARK	MAXIMUM	STRATEGY	+/-
<b>TRADITIONAL INCOME</b>	<b>20%</b>	<b>40%</b>	<b>60%</b>	<b>50%</b>	<b>+10%</b>
Money Market	0%	5%	30%	20%	+15%
Canadian Bonds	5%	35%	55%	30%	-5%
<b>TRADITIONAL CAPITAL APPRECIATION</b>	<b>40%</b>	<b>60%</b>	<b>80%</b>	<b>50%</b>	<b>-10%</b>
Canadian Equity	5%	25%	50%	35%	+10%
U.S. Equity	0%	15%	30%	5%	-10%
International Equity	0%	15%	30%	5%	-10%
Emerging Market Equity	0%	5%	15%	5%	0%

## Evolution of Value-Added<sup>1</sup>



Source: Fiera Capital, as of August 31, 2023.

<sup>1</sup> 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. Past performance is not a guarantee of future results. Inherent in any investment is the potential for loss.

# Evolution of Strategy

	Money Market	Canadian Bonds	Canadian Equity	U.S. Equity	International Equity	Emerging Market Equity	Non-traditional Income
January 1, 2006	+20%	-16%	-8%	+6%	-2%		
February 17, 2006	+16%	-10%	-10%	+6%	-2%		
April 4, 2006	+10%	-10%	0%	0%	0%		
May 9, 2006	+4%	-10%	+2%	+2%	+2%		
June 21, 2006	0%	-10%	+2%	+2%	+6%		
July 19, 2006	-10%	0%	+2%	+2%	+6%		
December 6, 2006	0%	-10%	+2%	+2%	+6%		
January 1, 2007	+5%	-10%	0%	+2%	+3%		
February 22, 2007	-5%	0%	0%	+2%	+3%		
March 9, 2007	0%	0%	-3%	0%	+3%		
June 29, 2007	0%	0%	-6%	-4%	+10%		
September 29, 2007	+6%	0%	-6%	-4%	+4%		
January 10, 2008	+12%	0%	-6%	-4%	-2%		
March 1, 2008	+16%	0%	-6%	-4%	-6%		
September 20, 2008	+8%	0%	-3%	-2%	-3%		
March 9, 2009	+8%	-8%	0%	0%	0%		
June 8, 2009	+8%	+2%	-4%	-3%	-3%		
December 9, 2009	+15%	-5%	-4%	-3%	-3%		
May 6, 2010	+15%	-15%	0%	0%	0%		
December 13, 2010	+10%	-15%	5%	0%	0%		
April 7, 2011	+10%	-10%	0%	0%	0%		
July 4, 2011	+10%	-15%	+5%	0%	0%		
August 10, 2011	+5%	-15%	+5%	+5%	0%		
October 5, 2011	+7%	-15%	+8%	0%	0%		
October 12, 2011	+6%	-10%	+4%	0%	0%		
November 11, 2011	+5%	0%	0%	0%	-5%		
December 7, 2011	0%	0%	+5%	0%	-5%		
April 20, 2012	+15%	-20%	+10%	0%	-5%		
July 31, 2012	+20%	-15%	0%	0%	-5%		
November 9, 2012	+10%	-15%	+10%	0%	-5%		
February 19, 2013	+5%	-15%	+10%	0%	0%		
August 6, 2013	0%	-15%	+10%	+5%	0%		
December 3, 2013	+10%	-15%	+5%	0%	0%		
February 5, 2014	0%	-15%	+10%	+10%	-5%		
October 14, 2014	0%	-20%	+5%	+10%	+5%		
November 14, 2014	+10%	-20%	+2.5%	+2.5%	+5%		
July 13, 2015	0%	-20%	+7%	+4%	+9%		
October 19, 2015	0%	-20%	+11%	0%	+9%		
June 24, 2016	+9%	-20%	+11%	0%	0%		
July 12, 2016	0%	-20%	+15%	0%	0%	+5%	
July 27, 2016	+5%	-20%	+12.5%	0%	0%	+2.5%	
October 31, 2016	0%	-20%	+12.5%	0%	0%	+7.5%	
April 5, 2017	+5%	-15%	+7.5%	0%	-5%	+7.5%	
December 6, 2017	+15%	-15%	+5%	-5%	-5%	+5%	
October 9, 2018	+15%	-15%	+5%	-10%	-5%	+10%	
November 9, 2018	0%	-20%	+5%	-10%	-5%	+10%	+20%
December 17, 2018	-5%	-20%	+5%	-5%	-5%	+10%	+20%
July 12, 2019	-5%	-20%	+5%	0%	-5%	+10%	+15%
March 24, 2020	0%	-15%	0%	0%	0%	0%	+15%
July 8, 2020	-5%	-20%	+10%	0%	0%	0%	+15%
March 11, 2021	-5%	-20%	+15%	-5%	0%	0%	+15%
August 2, 2021	+5%	-20%	+15%	-10%	-5%	0%	+15%
July 11, 2022	+15%	-20%	+7%	-10%	-7%	0%	+15%
November 29, 2022	+25%	-20%	0%	-10%	-10%	0%	+15%
August 3, 2023	+15%	-20%	+10%	-10%	-10%	0%	+15%



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