

# Fiera Capital Global Asset Allocation

MONTHLY UPDATE: MARCH 2022



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Financial markets swung wildly in February as unnerved investors contemplated the escalating conflict between Russia and Ukraine, which exacerbated market jitters about soaring inflation, a looming monetary policy tightening cycle, and concerns over slowing economic growth. Geopolitical tensions intensified late in the month as Russia's attack on Ukraine sent investors fleeing from risk assets and raised worries regarding the economic hit from resulting sanctions, which added to an already-tumultuous financial market backdrop.

FINANCIAL MARKET DASHBOARD				
	FEB. 28, 2022	FEB.	YTD	1 YEAR
<b>EQUITY MARKETS</b>		<b>% PRICE CHANGE (LC)</b>		
S&P 500	4374	-3.14%	-8.23%	14.77%
S&P/TSX	21126	0.13%	-0.45%	16.98%
MSCI EAFE	2179	-1.95%	-6.72%	0.47%
MSCI EM	1171	-3.06%	-4.93%	-12.54%
<b>FIXED INCOME (%)</b>		<b>BASIS POINT CHANGE</b>		
U.S. 10 Year Treasury Yield	1.83	4.8	31.5	42.0
U.S. 2 Year Treasury Yield	1.43	25.4	70.0	130.5
U.S. Corp BBB Spread	1.56	21.0	35.0	46.0
U.S. Corp High Yield Spread	3.77	27.0	107.0	92.0
<b>CURRENCIES</b>		<b>% PRICE CHANGE</b>		
CAD/USD	0.79	0.28%	-0.27%	0.52%
EUR/USD	1.12	-0.14%	-1.33%	-7.09%
USD/JPY	115.00	-0.10%	-0.07%	7.91%
<b>COMMODITIES</b>		<b>% PRICE CHANGE</b>		
WTI Oil (USD/bbl)	95.72	8.59%	27.27%	55.64%
Copper (USD/pound)	4.44	2.77%	-0.43%	8.55%
Gold (USD/oz)	1900.70	5.89%	3.94%	9.94%

Global equity markets were whipsawed in February and the MSCI All Country World slipped -2.7%. Not surprisingly, emerging market equities underperformed their developed market peers, with notable weakness stemming from emerging Europe. Meanwhile, speculation that the conflict will amplify inflation dynamics and fuel an aggressive pace of Federal Reserve monetary policy tightening pushed the S&P 500 into correction terrain, while international developed stocks also stumbled lower. By contrast, the S&P/TSX held firm and handily outperformed its global peers, thanks to robust returns in the heavyweight resource (energy, materials) sectors.

Fixed income markets also generated negative results in February. Yield curves flattened in a bearish fashion, with short-term yields rising by more than their long-term counterparts on wagers that aggressive policy normalization in response to a four-decade high in US inflation will slow the recovery. The two-year treasury yield rose 25 basis points to 1.43%, while the ten-year yield rose by a more modest 5 basis points to 1.83%. Similar moves were seen in Canada, with the two-year government bond yield rising 16 basis points to 1.44%, while the ten-year yield rose by 4 basis points to 1.81%. Meanwhile, credit spreads widened substantially as risk aversion took hold, and government bonds outperformed their corporate peers. For the month, the Barclays US Aggregate Bond index declined -1.1%, while the FTSE Canadian Bond Universe lost -0.7%.

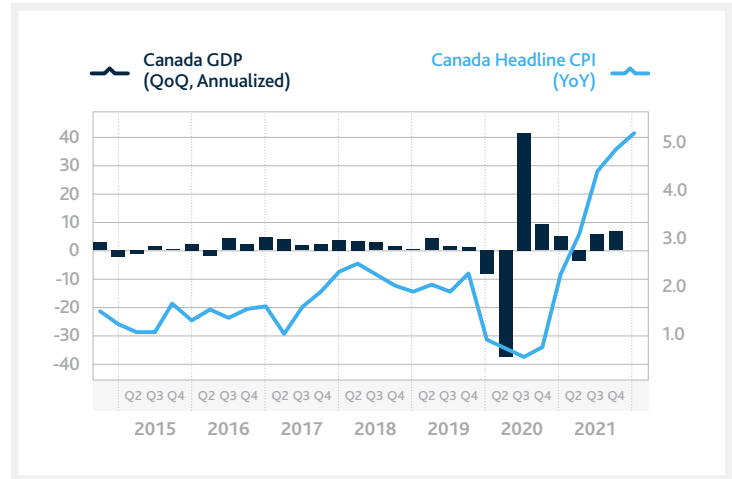
The US dollar advanced as the deterioration in risk appetite saw investors flock to the safe haven currency. The Canadian dollar managed to strengthen against a boisterous greenback, with surging oil prices underpinning the loonie. By contrast, both the euro and the pound weakened as investors scaled back their wagers for rate hikes from both the European Central Bank and the Bank of England.

Finally, commodity prices rallied the most since 2009 as traders contemplated the fraught geopolitical landscape and an array of supply risks triggered by Russia's invasion of Ukraine, which threatens key supplies of energy, crops, and metals. Crude oil soared higher on fears of curtailed supplies from the world's second biggest crude exporter, which comes at a time when the global oil market was already extremely tight. Agricultural markets also performed strongly, with wheat and soybean prices rising by double-digits. Meanwhile, gold capped its biggest monthly gain since last May as the raft of penalties against Russia raised concerns over the impact on global growth and boosted demand for the safe haven metal.

# Economic Overview

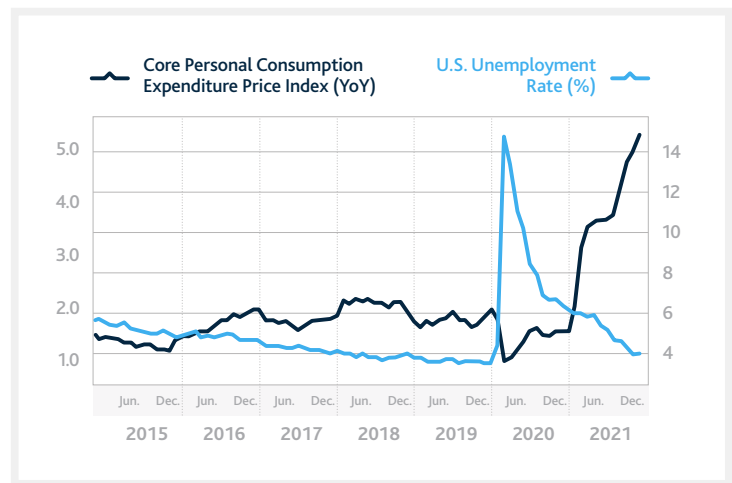
## CANADA

The Canadian economy ended 2021 on an upbeat note and expanded by a stronger-than-expected 6.7% q/q annualized in the fourth quarter. A strong domestic economy and firm pricing pressures have paved the way for the Bank of Canada to begin normalizing monetary policy, particularly given that the economy has already run-up against its capacity limits and no longer needs emergency-era monetary stimulus. Indeed, the Bank of Canada lifted its policy rate by 25 basis points to 0.50% in early March and set the stage for a series of rate hikes in the coming year. It goes without saying that the war in Ukraine has produced fresh uncertainties for the economic outlook. However, while higher prices for energy products, potash, and grain will add to inflationary pressures facing consumers, they will also act as an economic tailwind given that Canada is a significant producer of these commodities. Consequently, the Russian invasion of Ukraine is unlikely to alter the Bank of Canada's plans to normalize policy.



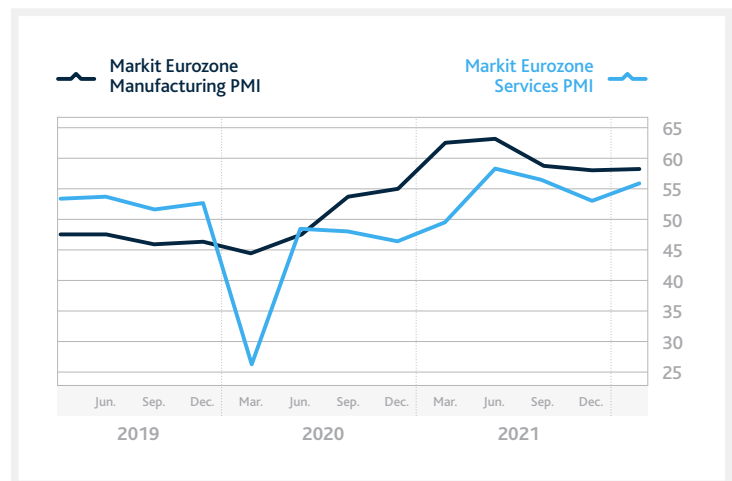
## UNITED STATES

Pricing pressures in the United States showed little sign of abating early-on in 2022, with the core personal consumption expenditure (PCE) deflator (the Federal Reserve's preferred indicator) accelerating 5.2% y/y in January, the fastest rate in nearly 40 years. In response, Chair Powell said that he supports a 25 basis point rate increase in March and called for a series of rate hikes to counter the highest inflation in four decades, though he refrained from ruling out larger rate hikes should inflation remain stubbornly elevated. Still, Chair Powell repeated his expectation that inflation will decline over the course of the year as supply constraints ease and as demand cools in the wake of waning fiscal support and higher interest rates. Moreover, given that economic impacts of the Russia-Ukraine conflict are "highly uncertain" he said the Fed will need to be attentive to incoming data and be nimble, while pledging to proceed cautiously and carefully so as to engineer a soft landing for the world's largest economy.



## INTERNATIONAL

According to the latest purchasing manager indices (PMI) for developed markets, the European economy bounced back in February as a decline in Covid cases rejuvenated confidence and demand. However, the near-term outlook remains fraught with uncertainty, with activity in Europe likely to suffer the brunt of a protracted geopolitical conflict between Russia and the Ukraine. Notably, the escalation in the crisis has particular consequences for the European economy given its proximity to Russia and Ukraine. While ongoing tensions are likely to spur a decline in business and consumer confidence across Europe, surging natural gas and electricity prices will also weigh on consumers' purchasing power. Moreover, lingering questions remain as to the magnitude and length of sanctions and their ensuing economic impacts, both in Europe and globally as well. Consequently, downside risks for the global economy have risen in the near-term, with a slowdown in Europe and a steep recession in Russia risking potential spillover effects for other major trading partners around the globe.



# Economic Scenarios



## Main Scenario | Reflation

Probability **50%**

Our base case scenario calls for the global economy to grow at an above-trend pace through 2022, without the fear of an aggressive and destabilizing monetary policy tightening event. The global economic recovery lingers-on, even in the wake of sporadic virus outbreaks. While COVID dynamics weigh on activity in the near-term, the recovery ultimately resumes as the latest virus wave subsides, activity continues to normalize, and pent-up savings are unleashed. Meanwhile, both cyclical and secular forces keep inflation elevated, which prompts central banks to dial-back on their emergency-era support. However, despite inflation pressures proving more persistent than initially thought, inflation expectations remain generally well-anchored, which allows policymakers to proceed cautiously and pragmatically in normalizing monetary policy. Central bank asset purchases are scaled-down through 2022, and both the Federal Reserve and Bank of Canada begin the gradual rate normalization process given that their respective economies will be operating at or near full potential and output gaps will soon be closed. By contrast, central banks in Europe, Japan, and China decouple from this policy trajectory and maintain an extremely stimulative monetary policy stance over the coming year. Still, the North American policy transition from extremely stimulative towards a neutral stance occurs progressively over several years, extending the longevity and visibility of the economic cycle.

## Scenario 2 | Stagflation

Probability **40%**

A growing risk to our base case scenario is that the world economy turns stagflationary in nature, a toxic combination of slowing global growth and accelerating prices. The “Stagflation” scenario assumes that inflationary pressures prove much stickier than previously assumed and de-anchors inflation expectations, with global economic prospects subsiding amid the fallout as a more aggressive tightening trajectory to combat runaway prices ends the cycle prematurely. Specifically, the near-term spike in pricing pressures proves more enduring than expected, and lasts long enough to become embedded in inflation expectations and ultimately triggers a wage-price spiral. Supply-chain dislocations take longer to correct, while shortages and subdued participation in the labour force become more long-lasting given lingering health-related fears of returning to work, the structural shift in demographics (ageing populations), or skills mismatches in the post-pandemic reality. The subsequent rise in input costs and the rapid buildup in wages cuts into the profitability of corporations and consumers struggle to maintain their purchasing power. In response, policymakers abandon their perceived tolerance for higher inflation and act aggressively to stem the inflationary spiral. This assertive and hawkish-leaning policy adjustment sparks a deceleration in global growth to below-potential levels. The stagnation in global growth occurs concurrently with an acceleration in inflation and tighter monetary policy, creating a tumultuous financial market landscape whereby both equities and bonds experience declines amid a marked deterioration in the macroeconomic landscape.

## Scenario 3 | Recession

Probability **10%**

Another wildcard continues to be the emergence of highly-transmissible COVID-19 variants that risk derailing the global economic recovery. In this scenario, the pandemic proves more severe and persistent than anticipated given the predominance of variants in future contagion. The risk is that more variants emerge given that a substantial part of the world population remains unvaccinated and amid uncertainty about the effectiveness of existing vaccines in fighting these new variants. At the same time, vaccine hesitancy in some parts of the world creates a hurdle to reaching herd immunity and fully eradicating COVID-19. As it takes longer to gain control over the propagation of the virus, confinement and mitigation efforts from governments are reinstated and social distancing behaviours linger-on, while health fears prompt some reluctance from consumers and businesses to re-engage fully - which ultimately delays the return to normal and fuels a steep contraction in growth.

# Forecasts for the Next 12-18 Months



SCENARIOS	FEBRUARY 28, 2022	REFLATION	STAGFLATION	RECESSION
<b>PROBABILITY</b>		<b>50%</b>	<b>40%</b>	<b>10%</b>
<b>GDP GROWTH 2022</b>				
Global	4.30%	5.00%	3.50%	-4.50%
Canada	3.80%	4.50%	1.50%	-5.00%
U.S.	3.70%	4.25%	1.50%	-3.50%
<b>GDP GROWTH 2023</b>				
Global	3.60%	3.50%	2.50%	1.00%
Canada	3.10%	2.00%	1.50%	-1.00%
U.S.	2.50%	2.00%	1.00%	-1.00%
<b>INFLATION (HEADLINE Y/Y)</b>				
Canada	5.10%	3.50%	4.50%	0.50%
U.S.	7.50%	3.50%	4.50%	0.50%
<b>SHORT-TERM RATES</b>				
Bank of Canada	0.25%	1.00%	1.75%	0.25%
Federal Reserve	0.25%	1.00%	1.75%	0.25%
<b>10-YEAR RATES</b>				
Canada Government	1.81%	2.50%	3.50%	0.50%
U.S. Government	1.83%	2.50%	3.50%	0.50%
<b>PROFIT ESTIMATES (12 MONTHS FORWARD)</b>				
Canada	1385	1350	1150	850
U.S.	227	220	205	150
EAFE	161	155	145	90
EM	98	100	90	55
<b>P/E (FORWARD 12 MONTHS)</b>				
Canada	15.3X	17.0X	16.0X	15.0X
U.S.	19.3X	20.0X	19.0X	16.0X
EAFE	13.6X	15.0X	14.5X	14.0X
EM	12.0X	13.5X	12.5X	12.0X
<b>CURRENCIES</b>				
CAD/USD	0.79	0.93	0.87	0.65
EUR/USD	1.12	1.25	1.15	1
USD/JPY	115	100	105	110
<b>COMMODITIES</b>				
Oil (WTI, USD/barrel)	95.72	105	95	35
Gold (USD/oz)	1900.7	1800	1900	2100

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	REFLATION	STAGFLATION	RECESSION
<b>PROBABILITY</b>	<b>50%</b>	<b>40%</b>	<b>10%</b>
<b>TRADITIONAL INCOME</b>			
Money Market	0.6%	1.0%	0.3%
Canadian Bonds	-2.5%	-6.3%	9.7%
High Yield	5.0%	0.0%	-7.0%
Preferred Shares	5.0%	0.0%	-10.0%
<b>NON-TRADITIONAL INCOME</b>			
Diversified Credit	8.0%	7.0%	5.0%
Multi-Strategy Income	5.0%	4.0%	0.0%
Diversified Real Assets	8.0%	7.0%	5.0%
<b>TRADITIONAL CAPITAL APPRECIATION</b>			
Canadian Equity Large Cap	8.6%	-12.9%	-39.6%
Canadian Equity Small Cap	10.0%	-15.0%	-40.0%
U.S. Equity Large Cap	-8.8%	-17.3%	-33.4%
U.S. Equity Small and Mid Cap	-6.5%	-21.0%	-40.0%
International Equity	-3.2%	-10.4%	-29.8%
Global Small Cap	-5.0%	-16.0%	-33.0%
Emerging Market Equity	4.5%	-10.8%	-31.6%
<b>NON-TRADITIONAL CAPITAL APPRECIATION</b>			
Private Equity	15.0%	12.0%	5.0%
Liquid Alternatives	7.0%	5.0%	0.0%

# Current Strategy<sup>1</sup>

## TRADITIONAL AND NON-TRADITIONAL PORTFOLIOS

	MINIMUM	BENCHMARK	MAXIMUM	STRATEGY	+/-
<b>TRADITIONAL INCOME</b>	<b>0.0%</b>	<b>17.5%</b>	<b>40.0%</b>	<b>3.5%</b>	<b>-14.0%</b>
Money Market	0.0%	0.0%	20.0%	3.5%	+3.5%
Canadian Bonds	0.0%	15.0%	40.0%	0.0%	-15.0%
High Yield and Preferred Shares	0.0%	2.5%	10.0%	0.0%	-2.5%
<b>NON-TRADITIONAL INCOME</b>	<b>0.0%</b>	<b>30.0%</b>	<b>50.0%</b>	<b>42.5%</b>	<b>+12.5%</b>
Diversified Credit	0.0%	12.0%	25.0%	17.0%	+5.0%
Multi-Strategy Income	0.0%	0.0%	10.0%	0.0%	0.0%
Diversified Real Assets	0.0%	18.0%	40.0%	25.5%	+7.5%
<b>TRADITIONAL CAPITAL APPRECIATION</b>	<b>10.0%</b>	<b>37.5%</b>	<b>60.0%</b>	<b>37.5%</b>	<b>0.0%</b>
Canadian Equity Large Cap	5.0%	10.0%	30.0%	20.0%	+10.0%
Canadian Equity Small Cap	0.0%	2.5%	10.0%	5.0%	+2.5%
U.S. Equity Large Cap	0.0%	7.5%	20.0%	0.0%	-7.5%
U.S. Equity Small and Mid Cap	0.0%	0.0%	10.0%	0.0%	0.0%
International Equity	0.0%	7.5%	20.0%	2.5%	-5.0%
Global Small Cap	0.0%	2.5%	10.0%	2.5%	0.0%
Emerging Market Equity	0.0%	7.5%	20.0%	7.5%	0.0%
<b>NON-TRADITIONAL CAPITAL APPRECIATION</b>	<b>0.0%</b>	<b>15.0%</b>	<b>40.0%</b>	<b>16.5%</b>	<b>+1.5%</b>
Private Equity	0.0%	10.0%	25.0%	11.0%	+1.0%
Liquid Alternatives	0.0%	5.0%	15.0%	5.5%	+0.5%

<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.

## Evolution of Strategy

	Traditional Income	Non-Traditional Income	Traditional Capital Appreciation	Non-Traditional Capital Appreciation
September 28, 2007	-10%	0%	-10%	+20%
January 9, 2008	-4%	0%	-16%	+20%
February 29, 2008	0%	0%	-20%	+20%
September 19, 2008	-10%	0%	-10%	+20%
June 8, 2009	-4%	0%	-16%	+20%
December 9, 2009	-16%	+12%	-16%	+20%
May 6, 2010	-20%	+10%	-8%	+18%
December 13, 2010	-20%	+4%	0%	+16%
August 10, 2011	-20%	+4%	+5%	+11%
November 11, 2011	-10%	+4%	-5%	+11%
April 20, 2012	-20%	+9%	0%	+11%
July 31, 2012	-20%	+14%	-5%	+11%
November 9, 2012	-20%	+14%	+2%	+4%
February 19, 2013	-20%	+13%	+5%	+2%
December 3, 2013	-20%	+20%	0%	0%
April 1, 2014	-20%	+20%	+10%	-10%
November 14, 2014	-20%	+20%	+5%	-5%
July 13, 2015	-20%	+5%	+10%	+5%
October 19, 2015	-20%	+0%	+15%	+5%
June 24, 2016	-13%	+0%	+8%	+5%
July 12, 2016	-20%	+0%	+13%	+7%
July 27, 2016	-20%	+5%	+8%	+7%
March 17, 2017	-20%	+13%	0%	+7%
October 9, 2018	-20%	+13%	0%	+7%
December 17, 2018	-20%	+10.5%	+2.5%	+7%
July 12, 2019	-20%	+10.5%	+7.5%	+2%
March 24, 2020	-12.5%	+10.5%	0%	+2%
July 8, 2020	-20%	+10.5%	+7.5%	+2%
August 2, 2021	-10%	+8.5%	0%	+1.5%
March 4, 2022	-14%	+12.5%	0%	+1.5%

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