Fiera Capital Global Asset Allocation

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FIERA CAPITAL

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Volatility dominated the marketplace in May, with the rapid pivot to tighter monetary policy, persistently elevated inflation, geopolitical risks, and lockdowns in China fueling fears of a global recession and weighing on investor sentiment. However, stock markets got some reprieve as attractive valuations and hopes that inflation may be peaking saw dip-buyers emerge late in the month. Still, lingering concerns around aggressive central bank tightening to combat rampant inflation and its impacts on growth and earnings are likely to keep investors on edge.

FINANCIAL MARKET DASHBOARD				
	MAY 31, 2022	MAY	YTD	1 YEAR
EQUITY MARKETS		% PRICE CHANGE (LC)		
S&P 500	4132	0.01%	-13.30%	-1.71%
S&P/TSX	20729	-0.16%	-2.33%	4.42%
MSCI EAFE	2038	0.21%	-12.77%	-12.96%
MSCI EM	1078	0.14%	-12.53%	-20.80%
FIXED INCOME (%)		BASIS POINT CHANGE		
U.S. 10 Year Treasury Yield	2.84	-9.0	133.4	125.0
U.S. 2 Year Treasury Yield	2.56	-15.8	182.4	241.6
U.S. Corp BBB Spread	1.82	3.0	61.0	74.0
U.S. Corp High Yield Spread	4.23	18.0	153.0	179.0
CURRENCIES		% PRICE CHANGE		
CAD/USD	0.79	1.68%	-0.08%	-4.52%
EUR/USD	1.07	1.79%	-5.59%	-11.96%
USD/JPY	128.67	-0.79%	11.81%	17.13%
COMMODITIES		% PRICE CHANGE		
WTI Oil (USD/bbl)	114.67	9.53%	52.47%	72.90%
Copper (USD/pound)	4.30	-2.25%	-3.75%	-8.16%
Gold (USD/oz)	1842.70	-3.61%	0.77%	-3.14%

It was a roller-coaster month for equity investors. After suffering some steep losses in early May, global equity markets regained some notable ground towards month-end. The MSCI All Country World was down by -0.1%. The S&P 500 was whipsawed throughout the month and saw seven trading days of moves bigger than 2%. After being on the brink of bear market terrain, the S&P 500 bounced-back to end the month virtually unchanged. The S&P/TSX lost -0.2%, while both international developed (+0.2%) and emerging market (+0.1%) benchmarks eked out a modest gain.

The profound rout in bond markets eased somewhat as unnerved investors bid-up safe haven assets. After breaking above 3%, the U.S. 10 year treasury yield reversed course and ended the month at 2.84% (-9 basis points). Meanwhile, the 2 year treasury yield fell by 16 basis points to 2.56% as investors reined-in their aggressive wagers for fed fund rate hikes following some preliminary signs of cooling inflation and after a Federal Reserve official floated the idea of a September "pause" in rate hikes. Canadian government yields barely budged, with the 10 year yield rising by 2 basis points to 2.89%, while the 2 year yield rose by 4 basis points to 2.66%. The Barclays U.S. Aggregate Bond index gained 0.6%, while the FTSE Canada Bond Universe was down -0.1%.

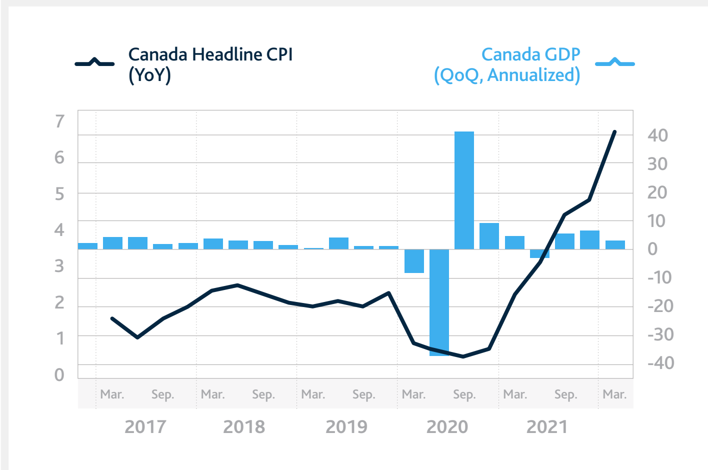
The unrelenting rally in the greenback stalled-out in May amid a convergence in global central bank policies that favored the euro (+1.8%) and the Canadian dollar (+1.7%). Specifically, the euro strengthened after the hawkish-tilt at the European Central Bank, with President Lagarde providing the clearest signal yet that liftoff will commence in July with an exit from negative rates by the third quarter. The Canadian dollar rallied after strong inflation data kept focus on the Bank of Canada's rush to neutral, while higher crude prices also buoyed the loonie.

Finally, oil prices advanced for a sixth straight month, the longest winning streak since 2011. Prices have seen some remarkable strength alongside a tightening energy market, with the conflict in Europe curbing supplies at a time of robust global demand. Gold capped a second monthly decline, driven by the prospect of rapidly rising interest rates as the Fed tackles the hottest inflation in decades. Copper retreated as concerns over the darkening outlook for the Chinese economy deepened. Of note, factory activity contracted in May, highlighting the continued impact from COVID outbreaks and lockdowns on the world's top metal-consuming economy.

Economic Overview

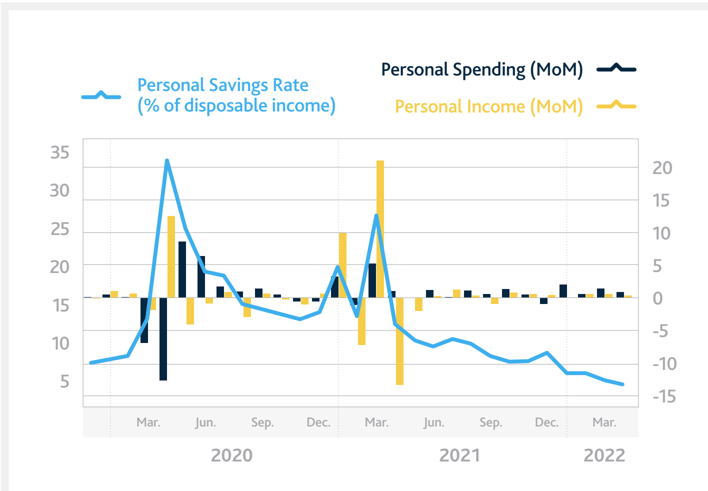
CANADA

Canadian consumers and businesses exhibited resilience at the beginning of 2022, even despite a sharp drop in exports that dragged growth below expectations. Gross domestic product expanded by a 3.1% annualized pace in the first quarter. Exports fell due to temporary supply constraints in the oil sector attributed to COVID-19 shutdowns, cold weather, and planned maintenance. The good news is that domestic demand accelerated to 4.8% annualized on the back of strong household spending, business investment, and housing. Moreover, the savings rate rose to 8.1% as compensation gains surged higher at the beginning of the year. With inflationary pressures intensifying and poised to accelerate further in the near-term, the Bank of Canada continues to push forward on its path to neutral. As widely expected, the central bank hiked the overnight rate by 50 basis points to 1.5% in early-June and reiterated that its "prepared to act more forcefully if needed."



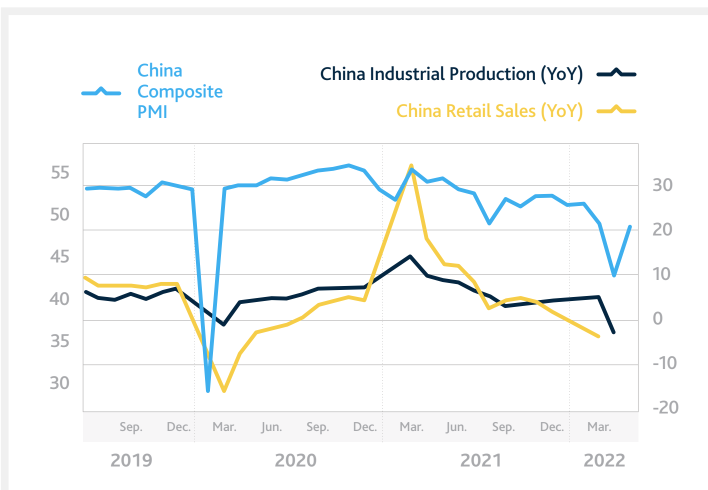
UNITED STATES

U.S. consumer demand held firm in April even in the wake of persistent price pressures as Americans dipped into their abundance of savings. Personal spending rose by 0.9% m/m in April, with both goods and services spending driving the gain. Meanwhile, personal incomes were up 0.4% m/m, with strong growth in employee compensation the biggest driver. On the inflation front, the headline personal consumption expenditure (PCE) deflator accelerated to an annual pace of 6.3% y/y. Excluding food and energy, core PCE inflation rose 4.9% y/y. Finally, the personal savings rate dropped to 4.4%, well below its pre-pandemic average as consumers continued to tap into their pool of excess savings accumulated during the pandemic. Taken together, spending is expected to stay healthy in the second quarter as consumers remain backstopped by rising wages and ample savings. Nonetheless, consumer spending is at risk of moderating later this year, with higher interest rates, record high gas prices, and higher grocery bills expected to take a larger toll on household budgets.



CHINA

The China activity data for April was unambiguously weak and highlights the risk of a contraction in GDP in the second quarter. China's economy is paying the price for the nation's COVID Zero policy, with both industrial output (-2.9% y/y) and retail sales (-11.1% y/y) sliding to the worst levels since the onset of the pandemic in 2020. Meanwhile, the official factory and services purchasing manager indices (PMI) remained in contraction territory in May, though they both showed improvement. The data paints a worrisome picture of a stalling economy and one in need of more aggressive stimulus and a rapid easing of COVID restrictions. Fortunately, the country has started to ease up on its tough lockdowns, allowing for some recovery in activity. Moreover, both the central bank and government have vowed to support the economy through a variety of measures – particularly as the official growth target of "around 5.5%" looks increasingly out of reach.



Economic Scenarios

Main Scenario | Stagflation

Probability **55%**

Our base case economic scenario calls for a period of "stagflation" – a toxic combination of slowing global growth and accelerating prices. This scenario assumes that inflationary pressures prove much stickier than previously assumed and last long enough to become embedded in inflation expectations, with global economic prospects subsiding amid the fallout. While inflation was already stubbornly elevated given the swift post-pandemic recovery and tight capacity conditions, this scenario has been exacerbated by the geopolitical escalation between Russia and Ukraine, which has boosted commodity prices and added to supply-chain dislocations that risks stoking inflationary pressures that will be more long-lasting. 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 so-called "transitory" narrative and act aggressively to stem the inflationary spiral, even in spite of decelerating growth prospects stemming from the Ukraine war. This assertive and hawkish-leaning policy adjustment adds to the deceleration in global growth to below potential levels, though outright contraction is avoided.

Scenario 2 | Recession

Probability **35%**

In this worst-case scenario, escalating geopolitical tensions push the notion of stagflation into a full-blown recession as central bank anxiety triggers an overly-aggressive monetary tightening event that ends the cycle prematurely. Specifically, central banks wait too long to address mounting price pressures and inflation expectations de-anchor, which forces central banks to slam on the breaks and tighten monetary policy too far, too fast (above neutral) - which inadvertently pushes the economy into recession. The shock to confidence becomes self-fulfilling in that consumers ramp-up their precautionary savings and refrain from spending, while businesses shelve plans for investment. Substantial financial market volatility ensues and unrelenting uncertainty creates a negative feedback loop which weighs heavily on both confidence and spending. Another wildcard continues to be the emergence of highly-transmissible COVID-19 variants that risk derailing the global economic recovery. China is currently experiencing an Omicron outbreak that has prompted lockdowns that could deal a severe blow to the domestic economy and global demand.

Scenario 3 | Soft Landing

Probability **10%**

In the "Goldilocks" soft landing scenario, central bankers ultimately prove successful at reining in decades-high inflation, but not so much as to trigger an outright contraction in gross domestic product and a rise in unemployment. Still, growth slows, but remains above trend. Should the conflict between Russia and Ukraine de-escalate in a timely manner, both commodity prices and supply chain bottlenecks would certainly ease. Inflation expectations would remain generally well-anchored, allowing policymakers to assume a measured approach to normalizing monetary policy without upending the economic expansion. That being said, increased stagflationary risks make central banks' intention to engineer a soft landing a challenge, particularly in light of the ongoing hostilities between Russia and Ukraine.

Forecasts for the Next 12-18 Months

SCENARIOS	MAY 31, 2022	STAGFLATION	RECESSION	SOFT LANDING
PROBABILITY		55%	35%	10%
GDP GROWTH 2022				
Global	3.30%	2.50%	2.00%	4.00%
Canada	4.10%	2.50%	1.50%	3.80%
U.S.	2.60%	2.00%	1.00%	3.50%
GDP GROWTH 2023				
Global	3.40%	2.00%	1.50%	3.50%
Canada	2.50%	1.50%	0.00%	2.50%
U.S.	2.00%	1.00%	-1.00%	2.00%
INFLATION (HEADLINE Y/Y)				
Canada	6.80%	8.00%	7.00%	6.00%
U.S.	8.30%	9.00%	8.00%	7.00%
SHORT-TERM RATES 2022				
Bank of Canada	1.50%	2.50%	5.00%	2.00%
Federal Reserve	1.00%	2.50%	5.00%	2.00%
SHORT-TERM RATES 2023				
Bank of Canada	1.50%	3.50%	3.00%	3.00%
Federal Reserve	1.00%	4.50%	3.00%	3.00%
10-YEAR RATES				
Canada Government	2.89%	3.50%	4.00%	3.00%
U.S. Government	2.84%	3.50%	4.50%	3.20%
PROFIT ESTIMATES (12 MONTHS FORWARD)				
Canada	1577	1400	850	1450
U.S.	237	225	150	250
EAFE	157	160	90	165
EM	91	90	55	95
P/E (FORWARD 12 MONTHS)				
Canada	13.1X	15.5X	14.0X	17.0X
U.S.	17.5X	18.5X	17.0X	20.0X
EAFE	13.0X	13.0X	12.0X	14.5X
EM	11.9X	12.0X	11.0X	13.0X
CURRENCIES				
CAD/USD	0.79	0.85	0.70	0.90
EUR/USD	1.07	1.15	1.00	1.20
USD/JPY	128.67	110.00	115.00	100.00
COMMODITIES				
Oil (WTI, USD/barrel)	114.67	90.00	60.00	95.00
Gold (USD/oz)	1842.70	1900.00	2100.00	1800.00

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.

Portfolio Strategy

Matrix of Expected Returns (CAD)

SCENARIOS	STAGFLATION	RECESSION	SOFT LANDING
PROBABILITY	55%	35%	10%
TRADITIONAL INCOME			
Money Market	1.8%	3.0%	1.5%
Canadian Bonds	-2.2%	-4.6%	1.0%
High Yield and Preferred Shares	0.0%	-8.5%	5.0%
NON-TRADITIONAL INCOME			
Diversified Credit	7.0%	5.0%	8.0%
Diversified Real Assets	7.0%	5.0%	8.0%
TRADITIONAL CAPITAL APPRECIATION			
Canadian Equity Large Cap	4.7%	-42.6%	18.9%
Canadian Equity Small Cap	0.0%	-45.0%	15.0%
U.S. Equity	-6.3%	-30.3%	6.3%
International Equity	-5.1%	-40.1%	3.1%
Emerging Market Equity	-6.8%	-36.6%	0.7%
NON-TRADITIONAL CAPITAL APPRECIATION			
Private Equity	12.0%	5.0%	15.0%
Liquid Alternatives	5.0%	0.0%	7.0%
CAD/USD	0.85	0.70	0.90

Current Strategy[1]

TRADITIONAL AND NON-TRADITIONAL PORTFOLIOS

	MINIMUM	BENCHMARK	MAXIMUM	STRATEGY	+/-
TRADITIONAL INCOME	**0.0%**	**17.5%**	**40.0%**	**7.5%**	**-10.0%**
Money Market	0.0%	0.0%	20.0%	7.5%	+7.5%
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%
NON-TRADITIONAL INCOME	**0.0%**	**30.0%**	**50.0%**	**38.5%**	**+8.5%**
Diversified Credit	0.0%	12.0%	25.0%	15.5%	+3.5%
Diversified Real Assets	0.0%	18.0%	40.0%	23.0%	+5.0%
TRADITIONAL CAPITAL APPRECIATION	**10.0%**	**37.5%**	**60.0%**	**37.5%**	**0.0%**
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	0.0%	12.5%	20.0%	5.0%	-7.5%
International Equity	0.0%	7.5%	20.0%	2.5%	-5.0%
Emerging Market Equity	0.0%	5.0%	20.0%	5.0%	0.0%
NON-TRADITIONAL CAPITAL APPRECIATION	**0.0%**	**15.0%**	**40.0%**	**16.5%**	**+1.5%**
Private Equity	0.0%	10.0%	25.0%	11.0%	+1.0%
Liquid Alternatives	0.0%	5.0%	15.0%	5.5%	+0.5%

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.

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%

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