TACTICAL ASSET ALLOCATION COMMITTEE MONTHLY COMMENTARY

APRIL 2020

The month of March was nothing short of unprecedented. Financial markets were roiled against the backdrop of the escalating COVID-19 pandemic and the dreadful economic fallout from the countermeasures to contain it. Investors are weighing the progression of the outbreak and the ramifications for global growth against the efficacy of the monetary and fiscal response in restoring financial market stability and stemming the economic hardship. As the breadth and depth of the outbreak and its economic toll remain unknown at this time, sentiment is almost certain to be fragile until the virus has been contained.

FINANCIAL MARKET DASHBOARD

	MARCH 31, 2020	MARCH	YTD	1 YEAR
EQUITY MARKETS		% PRICE CHANGE (LC)		
S&P 500	2585	-12.51%	-20.00%	-8.81%
S&P/TSX	13379	-17.74%	-21.59%	-16.91%
MSCI EAFE	1560	-13.82%	-23.43%	-16.84%
MSCI EM	849	-15.61%	-23.87%	-19.80%
FIXED INCOME (%)		BASIS POINT CHANGE		
US 10 Year Bond Yield	0.67	-47.9	-124.8	-173.6
US 2 Year Bond Yield	0.25	-66.8	-132.4	-201.5
US Corp BBB Spread	2.77	132.0	152.0	118.0
US Corp High Yield Spread	8.79	371.0	552.0	476.0
CURRENCIES		% PRICE CHANGE		
CAD/USD	0.71	-4.79%	-7.65%	-5.10%
EUR/USD	1.10	0.05%	-1.62%	-1.67%
USD/JPY	107.54	-0.32%	-0.99%	-2.99%
COMMODITIES		% PRICE CHANGE		
WTI Oil (USD/bbl)	20.48	-54.24%	-66.46%	-65.95%
Copper (USD/pound)	2.23	-12.49%	-20.34%	-24.11%
Gold (USD/oz)	1583.40	1.07%	3.96%	22.46%

Fear gripped the panic-stricken marketplace in an unparalleled month, with global equity benchmarks down sharply in the wave of indiscriminate selling. While assertive action from central banks and governments indeed alleviated some of the pressure, the mid-month revival in risk appetite proved fleeting as coronavirus cases continued to mount globally. The carnage was felt broadly across the world in the exodus to safe haven assets. The S&P 500 capped a horrific month, while the S&P/TSX led the decline amid calamitous weakness in the battered energy sector. Looking abroad, European and Japanese equities also joined the monthly rout, while emerging market stocks have shed close to $5 trillion in value since the beginning of the year.

Bond yields swung wildly as investors contemplated the economic fallout of the COVID crisis, bond supply implications of the fiscal response, and central bank measures aimed at restoring liquidity. In the end, newly announced stimulus measures and heightened investor angst led government bond yields lower. Most dramatically, the Federal Reserve slashed rates back to zero and announced a string of new measures aimed at providing unlimited liquidity to all parts of the financial system. Meanwhile, the ECB removed the constraints on the bonds it buys under its new purchase program, while the Bank of Canada lowered its overnight rate three times and introduced some large scale asset purchases. Finally, spreads exploded as lingering recession fears brought into question the health of US corporations, which saw credit underperform its government counterparts by a wide margin in March.

The US dollar thrived in the environment of elevated uncertainty and deteriorating global growth prospects, with unnerved investors flocking to the safety of the greenback. In contrast, the Canadian dollar was pummeled by the unrelenting drop in crude prices, while the Japanese yen managed to eke out a modest gain due to its safe haven status in what was an erratic financial market environment.

Oil tumbled to an 18-year low after being struck by a simultaneous demand and supply shock. While COVID lockdowns cascaded across the globe and cratered demand prospects, the incoming supply deluge from the global price war exacerbated the unprecedented hit to prices. Meanwhile, copper prices plunged lower as fears about global demand destruction weighed on industrial metals. Finally, gold was whipsawed as investors rushed to liquidate to cover other financial losses, though was bid-up in late-March as nervous investors sought a refuge in the traditional safe haven, while extraordinary monetary stimulus also lent support.

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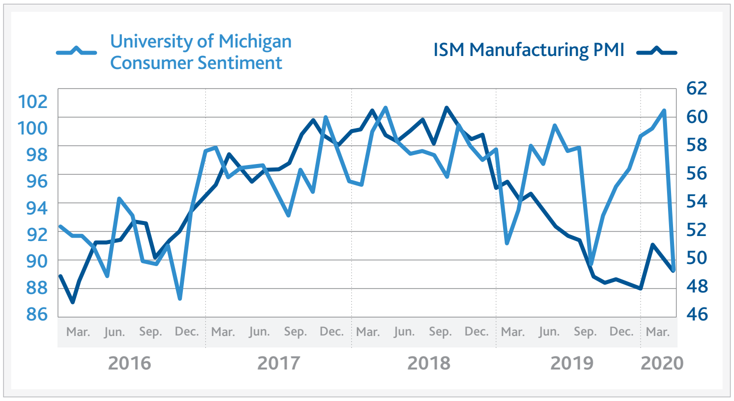
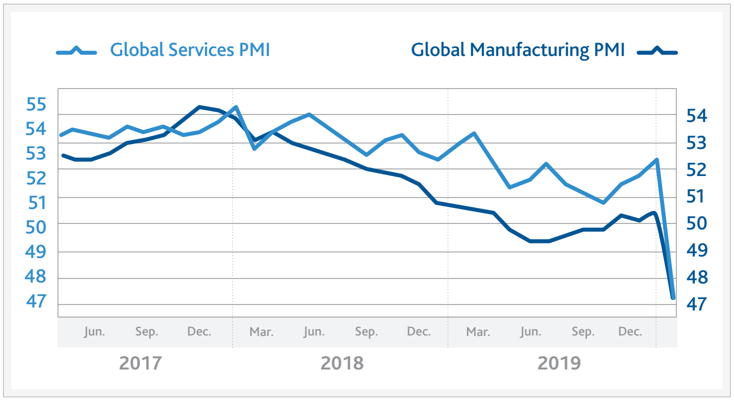
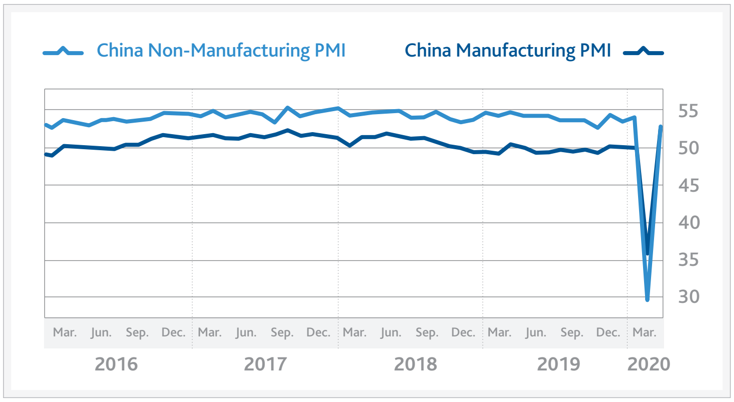


According to the University of Michigan survey, household confidence plunged by the most since October 2008 in March as mounting covid-19 cases, business closures, and job losses dampened sentiment. Meanwhile, the ISM manufacturing survey revealed that both orders and employment at US factories contracted at the fastest pace in 11 years as producers grapple with pandemic-related demand destruction.



The pronounced weakness in China at the beginning of the year has permeated across the globe as the fast-spreading virus spurs strict countermeasures in developed economies. In contrast to previous crises, the services sector has assumed much of the weakness owing to the massive hit to travel, leisure, and restaurants. Similarly, global factories have also suffered (albeit to a lesser extent) amid mass shutdowns that have wreaked havoc on supply chains.



The Chinese manufacturing PMI rebounded to 52.0 in March from February's historical low, while the non-manufacturing counterpart soared to 52.3. The underlying details of the factory PMI pointed to a recovery in both supply-side and domestic demand activities. Meanwhile, most service-related components remained weak, though the construction sector rebounded forcefully amid government support that boosted infrastructure projects.

USA

The record-long expansion in the US has come to an end as soaring COVID-19 cases spurs intense social distancing measures and restrictions that have brought the world's largest economy to a screeching halt. While supply-chain disruptions have crippled production and weighed on factory activity, the consumer is feeling even more pain as businesses close their doors and millions of Americans lose their jobs, which has fueled a massive destruction of wealth. Keen to avoid a prolonged recession, policymakers have stepped-up in a timely and assertive manner with emergency measures to limit the damage to both households and businesses. However, with little in the way of visibility regarding the extent and magnitude of the outbreak as it spreads aggressively through the US, the market has been unphased by pledges for support thus far.

INTERNATIONAL

The global growth outlook has deteriorated dramatically as stringent restrictions on both businesses and households to curb the coronavirus spread has brought much of the world economy to a standstill. The pandemic has now proliferated in the Western world, with Europe and the US the new epicentre of the health crisis. As a result, developed economies are now suffering the dreadful blow that China saw earlier this year. With travel restrictions and closures across factories, stores, and restaurants, the meltdown has spanned broadly across both the manufacturing an services sectors – though the consumer-oriented industries such as tourism, leisure, and entertainment have assumed the brunt of the weakness. With both Europe and the US extending lockdowns even further, the economic toll will be nothing short of dreadful in the coming months.

EMERGING

The Chinese economy was at the epicentre of the COVID-19 outbreak in January. While draconian measures imposed by the government quickly contained the spread, it came with a massive economic toll as the economy came to an abrupt stop at the beginning of the year. Encouragingly, lockdowns have proven successful in combating the virus as new cases in China have peaked. As a result, the economy has begun to renormalize as factories re-open and as the population slowly returns to work. Indeed, China's purchasing manager indices returned to expansion-terrain in March after the steep collapse through January and February, offering a glimmer of hope for other countries going through intense periods of infection and isolationism that the virus-related hit to activity could indeed be relatively short-lived.

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MAIN SCENARIO
SUBDUED RECOVERY

PROBABILITY 50%

In this mildly optimistic scenario, an existing medical solution is proven effective in dampening the pandemic over the next quarter and mitigation efforts prove successful in stemming its spread, which brings about a certain degree of confidence that we are regaining control over the propagation of the disease and its potential growth impacts. As a result, economic activity resumes during the third quarter of 2020, albeit at a subdued pace as the psychological shock to both consumers and businesses weighs on confidence and spending intensions, restraining the magnitude of the economic recovery in the coming year.

SCENARIO 2
PROLONGED SLOWDOWN

PROBABILITY 25%

Even if no clear medical solution is found and social distancing guidance remains, confidence prevails that a cure for COVID-19 will be made available sometime in 2021. Tentative signs that strict mitigation efforts are proving successful in containing the contagion spurs a resumption in economic activity this summer. However, the fact that the outbreak hasn't been fully conquered leaves the economy in a vulnerable position and local quarantine efforts are necessary for affected areas. The population remains in lockdown-mode and the steep contraction in the second quarter makes way for virtually no growth into 2021 as heightened levels of fear and anxiety leave consumers and businesses reluctant to spend until a vaccine is made available.

SCENARIO 3
RAPID RECOVERY

PROBABILITY 15%

In the "V-shape" recovery scenario, an existing therapeutic is discovered in the near-term and proves sufficient in gaining control over the proliferation of the coronavirus. As the outbreak recedes, sentiment improves drastically and isolationism and social distancing measures abate in accordance. In turn, economic activity resumes at a rapid pace during the third quarter, with a dramatic snapback in activity during the back half of 2020 as unleashed pent-up demand and the lagged impact of massive monetary and fiscal stimulus amplifies the rebound through the second half of 2020 and into 2021.

SCENARIO 4
PROTRACTED RECESSION

PROBABILITY 10%

Failure to contain the global pandemic or to find a near-term cure morphs into an extended period of global recession and a prolonged bear market in stocks. In this calamitous scenario, virus mitigation efforts from governments that include quarantines, work stoppages, and restricted mobility fuels a steep contraction in global economic activity. These factors become self-fulfilling in that the loss of business revenues and potential for corporate bankruptcies results in job losses that further dampen spending intensions and economic activity well beyond the lifespan of the epidemic.

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FORECASTS FOR THE NEXT 12 MONTHS

SCENARIOS	MARCH 31, 2020	SUBDUED RECOVERY	PROLONGED SLOWDOWN	RAPID RECOVERY	PROTRACTED RECESSION
PROBABILITY		50%	25%	15%	10%
GDP GROWTH 2020					
Global	1.00%	-2.00%	-3.00%	2.00%	-10.00%
Canada	1.80%	-4.00%	-5.00%	-1.00%	-10.00%
U.S.	2.30%	-2.00%	-4.00%	0.00%	-10.00%
GDP GROWTH 2021					
Global	1.00%	2.50%	1.00%	4.50%	-5.00%
Canada	1.80%	2.00%	0.00%	4.00%	-5.00%
U.S.	2.30%	2.00%	0.00%	4.00%	-5.00%
INFLATION (HEADLINE Y/Y)					
Canada	2.20%	0.00%	-1.00%	1.00%	-2.00%
U.S.	2.30%	0.00%	-1.00%	1.00%	-2.00%
SHORT-TERM RATES					
Bank of Canada	0.25%	0.25%	0.25%	0.25%	0.00%
Federal Reserve	0.25%	0.25%	0.25%	0.25%	0.00%
10-YEAR RATES					
Canada Government	0.70%	0.90%	0.50%	1.25%	0.30%
US Government	0.67%	1.00%	0.60%	1.40%	0.40%
PROFIT GROWTH (12 MONTHS FORWARD)					
Canada	-8.5%	-24.0%	-35.9%	-14.5%	-47.8%
U.S.	8.3%	-14.8%	-36.1%	-8.7%	-48.3%
EAFE	-3.1%	-21.2%	-37.8%	-12.9%	-50.2%
EM	3.0%	-22.8%	-36.8%	-8.7%	-50.9%
P/E (FORWARD 12 MONTHS)					
Canada	13.9X	18.0X	14.0X	19.0X	13.0X
U.S.	14.5X	19.0X	16.0X	21.0X	15.0X
EAFE	13.4X	17.0X	14.0X	19.0X	13.0X
EM	11.6X	15.0X	13.0X	17.0X	12.0X
CURRENCIES					
CAD/USD	0.71	0.72	0.65	0.75	0.62
EUR/USD	1.10	1.10	1.00	1.14	0.90
USD/JPY	107.54	104.00	100.00	115.00	90.00
COMMODITIES					
Oil (WTI, USD/barrel)	20.48	30.00	20.00	35.00	15.00

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.

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MATRIX OF EXPECTED RETURNS

SCENARIOS	SUBDUED RECOVERY	PROLONGED SLOWDOWN	RAPID RECOVERY	PROTRACTED RECESSION
PROBABILITY	50%	25%	15%	10%
TRADITIONAL INCOME (BONDS)	**0.5%**	**2.6%**	**-1.5%**	**3.6%**
Money Market	0.3%	0.3%	0.3%	0.1%
Canadian Bonds	0.6%	3.2%	-1.9%	4.5%
NON-TRADITIONAL INCOME	**2.0%**	**0.0%**	**5.0%**	**-8.0%**
TRADITIONAL CAPITAL APPRECIATION (STOCKS)	**2.8%**	**-27.7%**	**22.4%**	**-44.2%**
Canadian Equity	7.6%	-29.4%	27.8%	-46.6%
U.S. Equity	1.6%	-28.9%	15.5%	-43.4%
International Equity	2.2%	-26.4%	21.2%	-42.7%
Emerging Market Equity	-4.0%	-24.6%	23.4%	-43.2%
NON-TRADITIONAL CAPITAL APPRECIATION	**0.0%**	**-5.0%**	**10.0%**	**-20.0%**

CURRENT STRATEGY[1]

	MINIMUM	BENCHMARK	MAXIMUM	STRATEGY	ALLOCATION	RELATIVE
TRADITIONAL INCOME (BONDS)	**10.0%**	**30.0%**	**50.0%**	**Underweight**	**17.5%**	**-12.5%**
Money Market	0.0%	5.0%	40.0%	Neutral	5.0%	0.0%
Canadian Bonds	0.0%	25.0%	50.0%	Underweight	12.5%	-12.5%
NON-TRADITIONAL INCOME	**0%**	**20.0%**	**40%**	**Overweight**	**30.5%**	**+10.5%**
TRADITIONAL CAPITAL APPRECIATION (STOCKS)	**10%**	**30.0%**	**50%**	**Neutral**	**30.0%**	**0.0%**
Canadian Equity	5.0%	10.0%	30.0%	Neutral	10.0%	0.0%
U.S. Equity	0.0%	7.5%	25.0%	Neutral	7.5%	0.0%
International Equity	0.0%	7.5%	25.0%	Neutral	7.5%	0.0%
Emerging Markets Equity	0.0%	5.0%	15.0%	Neutral	5.0%	0.0%
NON-TRADITIONAL CAPITAL APPRECIATION	**0%**	**20%**	**40%**	**Overweight**	**22.0%**	**+2.0%**

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.

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EVOLUTION OF STRATEGY[1]

	TRADITIONAL INCOME (BONDS)	NON-TRADITIONAL INCOME	TRADITIONAL CAPITAL APPRECIATION (STOCKS)	NON-TRADITIONAL CAPITAL APPRECIATION
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	-20.0%	+10.5%	+7.5%	+2.0%
March 24, 2020	-12.5%	+10.5%	0.0%	+2.0%

1 Based on a 100 basis point value added objective.

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