TACTICAL ASSET ALLOCATION COMMITTEE MONTHLY COMMENTARY

MARCH 2020

FIERA CAPITAL

Investor anxiety morphed into panic in February. Financial markets were rattled by the latest headlines around the novel coronavirus, with investors attempting to gauge the severity of the widening epidemic and the implications for global growth. While the outbreak has slowly been abating in China and businesses have gradually resumed operations, news that the deadly virus has spread outside of China (to Korea, Japan, Iran and Italy) has stoked fears of a wider pandemic and a more pronounced global economic slowdown. Risk appetite dwindled in response, with the gloomy mood manifesting itself and sending shockwaves through the global marketplace.

FINANCIAL MARKET DASHBOARD

	FEB. 28, 2020	FEB.	YTD	1 YEAR
EQUITY MARKETS		% PRICE CHANGE (LC)		
S&P 500	2954	-8.41%	-8.56%	6.10%
S&P/TSX	16263	-6.09%	-4.69%	1.65%
MSCI EAFE	1810	-9.23%	-11.16%	-3.42%
MSCI EM	1006	-5.35%	-9.79%	-4.32%
FIXED INCOME (%)		BASIS POINT CHANGE		
US 10 Year Bond Yield	1.15	-35.8	-76.9	-156.6
US 2 Year Bond Yield	0.91	-40.0	-65.6	-160.1
US Corp BBB Spread	1.45	13.0	20.0	-18.0
US Corp High Yield Spread	5.08	107.0	181.0	126.0
CURRENCIES		% PRICE CHANGE		
CAD/USD	0.75	-1.15%	-3.00%	-1.61%
EUR/USD	1.10	-0.60%	-1.67%	-3.03%
USD/JPY	107.89	-0.42%	-0.66%	-3.14%
COMMODITIES		% PRICE CHANGE		
WTI Oil (USD/bbl)	44.76	-13.19%	-26.70%	-21.78%
Copper (USD/pound)	2.55	1.15%	-8.97%	-13.69%
Gold (USD/oz)	1566.70	-1.02%	2.86%	19.04%

After breaching all-time highs, global equity markets abruptly reversed course and entered full-blown correction-mode in February. The MSCI All Country World tumbled lower, while the S&P 500 dropped over 15% from its mid-February record high. The S&P/TSX also got caught up in the wave of selling, while MSCI's gauge of emerging market stocks outperformed their developed market peers and fell more modestly as investors embraced pledges from Chinese policymakers to revive the economy.

Mounting fears about the global impacts of the fast-spreading coronavirus saw traders seek a refuge in government bonds and drove yields to unprecedented lows, while expectations for weaker global growth, declining inflation expectations, and increased bets for central bank easing also added to the downward move. While both the 10- and 30-year treasury yields breached new lows, the 2-year treasury yield sunk even further as investors ramped-up their wagers for Federal Reserve easing and are now pricing close to four fed fund rate cuts by year-end. In the end, the Federal Reserve validated the market's dovish expectations and announced an emergency 50 basis point rate cut in early-March to shield the economy in the face of evolving virus-related risks.

The greenback thrived in February as investors bid-up the haven currency in what was an erratic month, underscoring the dollar's reserve status and the US economy's relative resilience. The dollar gained against most of its peers, with the exception of the Japanese yen that was also buoyed by haven flows. In contrast, the pound faltered after PM Johnson threatened to walk away from trade talks with the EU if its not clear a comprehensive trading agreement will be reached by June, while the Canadian dollar slid to an eight-month low alongside the severe pullback in crude prices.

Finally, the shock from the viral outbreak saw commodity prices plunge lower as the fast-spreading epidemic sparked fears about global growth prospects and accordingly, commodity demand. Oil assumed the brunt of the weakness and slipped below $45/barrel ahead of a crucial OPEC+ meeting about whether to extend the current production curbs in an effort to stabilize prices. Even gold (a traditional safe haven) wasn't immune as investors were forced to take profits to cover their equity losses and margin calls. Interestingly, copper edged marginally higher in February as the profound policy response from Chinese policymakers saw the red metal regain some stability after the steep sell-off in 2020.

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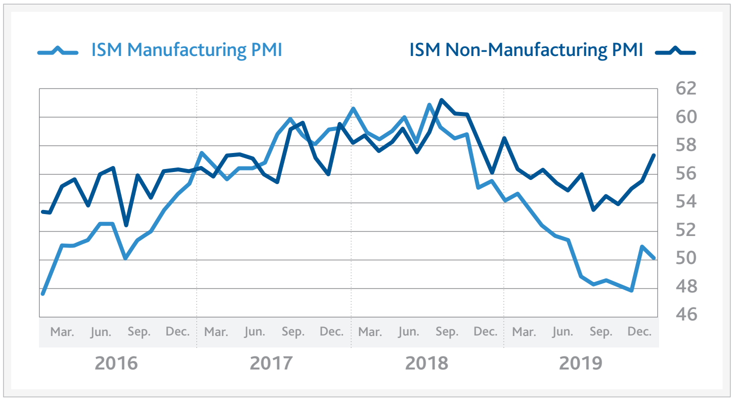
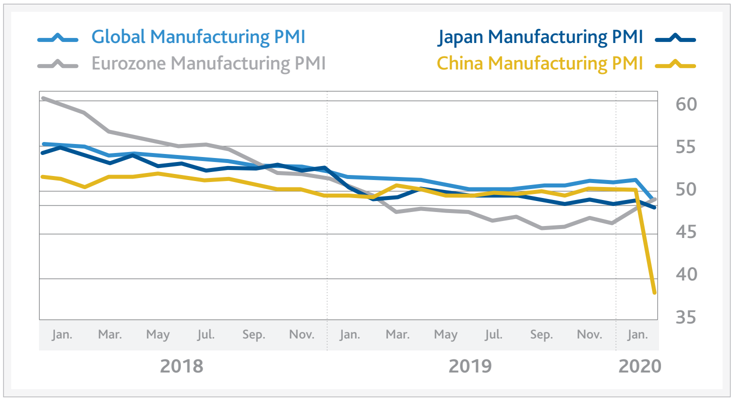
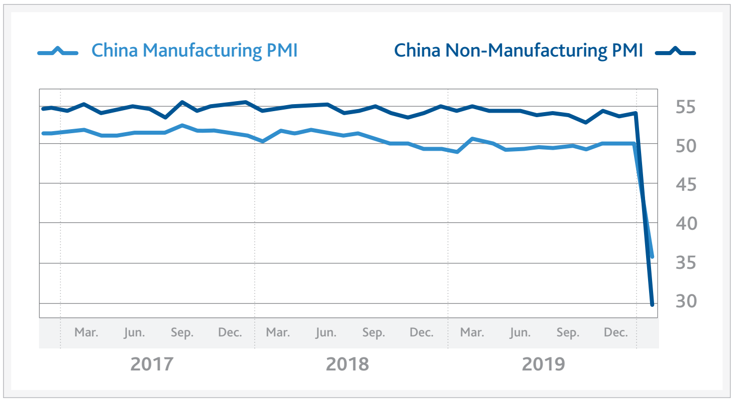


The ISM factory gauge retreated to near-stagnation in February as concerns mounted that the world's largest economy won't be able to dodge the hit from the coronavirus. Encouragingly, the services side of the economy demonstrated some notable momentum and posted its fastest growth in a year – though weakness is likely to emerge in March as reduced tourism weighs on travel and hospitality.



The Global Manufacturing PMI snapped a three-month streak of expansionary readings and was pummelled back into contraction terrain in February as businesses braced for the fast-spreading coronavirus to weigh on activity – with both production and export orders deteriorating substantially during the month. While several regions registered contraction, the decline was driven by record weakness in the Chinese factory sector.



Activity in China's manufacturing sector contracted sharply in February, with the official gauge plunging to the lowest level on record (35.7) amid factory closures and supply chain disruptions. Similarly, the non-manufacturing gauge fell to an all-time low of 29.6 as the Chinese services sector was hard-hit by quarantines that sharply reduced consumer spending and tourism.

CANADA

While the Canadian economy came to a virtual standstill at the end of 2019, December's robust results provided a strong handoff into 2020. Together with simmering trade tensions and the reversal of several temporary factors that weighed on growth late last year, the economy was on the path to recovery early-on in 2020. Regrettably, the COVID-19 outbreak has fuelled a profound collapse in commodity prices and supply-chain disruptions in the manufacturing space that have dampened hopes for a swift rebound, while transportation blockages on the rail network are certain to weigh on growth in the near-term. That said, pledges for government fiscal stimulus and an easier monetary policy stance from the Bank of Canada suggest that any growth slowdown will be transitory in nature and should provide some relief for the economy later this year.

USA

The US economy was on solid ground leading up to the coronavirus crisis. While business optimism was buoyed by reduced policy (trade) risks following the US-Sino and USMCA trade deals late last year, the consumer remained resilient amid solid employment and wage gains that bolstered confidence and spending. However, the economy will not be immune to virus-related risks amid impaired supply chains, weaker production, slower global demand, and lost business revenues. And while the extent of the outbreak in the US remains unknown, fear is likely to grip consumers and weigh on spending and hiring in the near-term. After conveying a degree of complacency and reaffirming that its comfortable with its current policy stance, the Federal Reserve abruptly switched gears in early-March and announced an emergency half point rate cut to limit the fallout and extend the record-long expansion in the US.

INTERNATIONAL

The near-term impacts of the fast-spreading coronavirus are being felt on the global scale. After spending three straight months in expansion terrain, global factory activity contracted by the most since 2009 in February as the outbreak severely disrupted demand, trade, and supply chains. Not surprisingly, the slump largely reflects weakness in China. Outside of China, weakness was more limited - though the full effects have yet to be felt and will indeed spillover more broadly in the next month. Indeed, already-fragile German and Japanese economies are particularly vulnerable due to their export-oriented nature and their supply chain linkages to China. However, similar to previous epidemics, weakness should largely prove transitory in nature and result in a V-shaped recovery later this year, while the flood of fiscal and monetary stimulus from policymakers worldwide should also lend support.

MAIN SCENARIO
SUSTAINED GLOBAL EXPANSION

PROBABILITY 60%

The global economy finds its footing and reaccelerates in a synchronous manner, with global growth advancing in-line with its potential rate. The US leads the global charge as the consumer remains a pivotal source of strength, though growth moderates to a still above-trend pace due to limited spare capacity in these later stages of the cycle. Meanwhile, healthy demand stateside and receding North American (USMCA) trade tensions buoys the Canadian economy and helps to facilitate the much-needed rotation towards exports and business investment (from the consumer and housing sector). Looking abroad, transitory factors that were exacerbated by a tumultuous global trade backdrop dissipate and both the European and Japanese economies recalibrate somewhat, while the Chinese economy stabilizes in response to the plethora of monetary and fiscal stimulus measures that place a floor under the world's second largest economy and by extension, global growth prospects. The environment of moderate, albeit self-sustaining growth keeps inflation stable at levels that do not pose a threat to the economic trajectory and allows major central banks to maintain stimulative policies. Notably, central bankers assume an increased tolerance for an overshoot on their inflation targets and a willingness to let the economy run hot (emphasis on "symmetry"), creating a lucrative, not-too-hot, not-too-cold backdrop for both the economy and investors alike. The accommodative impulse from major central banks ultimately nurtures the economic recovery and extends the visibility of the cycle. This reflationary backdrop bodes well for equities and commodities at the expense of fixed income and the US dollar.

SCENARIO 2
GLOBAL RECESSION

PROBABILITY 15%

Failure to contain the coronavirus outbreak morphs into a global pandemic and sparks a full-blown recession and 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, with broad based weakness across both the consumer and business sectors. Specifically, extensive factory closures paralyze global supply chains and cripples production, which in turn weighs on revenues and corporate profitability. 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. Meanwhile, efforts to contain the virus such as restrictions on mobility induces a profound collapse in travel and tourism, which when combined with heightened levels of panic in general keeps consumers isolated and reluctant to spend.

SCENARIO 3
POLITICAL INSTABILITY

PROBABILITY 15%

The trend towards populism and protectionist policy could ignite a crisis in confidence and destabilize the financial markets, while heightened geopolitical strains also have the potential to create periodic bouts of volatility. The biggest risk to our base case scenario is a rise in protectionism stemming from the US and the threat of a full-blown trade war that would derail the synchronous global expansion. While the US has proven successful in securing a trade deal with Canada and Mexico and extracting a "phase one" trade agreement with China, vulnerabilities remain due to the sizeable trade deficit in the US. Notably, trade tribulations between the world's two largest economies are likely to prevail as negotiations linger-on unresolved with no concrete, long-term deal to tackle the larger, structural issues and imbalances between the US and China. Meanwhile, Trump's focus may also shift towards other global trading partners, with the US threatening to use Section 232 (national security grounds) to impose tariffs on auto imports. Taken together, an escalation in the trade debacle would be detrimental for trade flows and hence, the global economy. The political landscape in Europe and the UK also remains highly uncertain, with the fortunes for these economies hinging on whether UK and EU negotiators can agree on a trade deal in 2020, as failure to do so before the year-end deadline would result in a "hard" (no-deal) Brexit. Finally, uncertainty over the US election could also act as a strain in 2020, with anti-business rhetoric from the Democrats potentially creating pockets of volatility in the coming year.

SCENARIO 4
STAGFLATION

PROBABILITY 10%

After an extended period of undershooting central bank inflation targets, policymakers tolerate higher inflation (overshoot) and monetize inflation. As a result, inflation expectations start to de-anchor from current subdued levels and surge higher. This would come at the same time that fiscal stimulus is being reigned-in (2020) in the later stages of the economic expansion, causing growth to moderate to well below potential levels in response. In the Stagflation scenario, a stagnation in growth occurs concurrently with an acceleration in inflation as a result of previous excessive monetary stimulation and an exhaustion of productive capacity - creating a tumultuous financial market landscape whereby both equities and bonds experience broad based declines.

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FORECASTS FOR THE NEXT 12 MONTHS

SCENARIOS	FEBRUARY 28, 2020	SUSTAINED GLOBAL EXPANSION	GLOBAL RECESSION	POLITICAL INSTABILITY	STAGFLATION
PROBABILITY		60%	15%	15%	10%
GDP GROWTH (Y/Y)					
Global	3.20%	2.80%	1.50%	2.00%	2.75%
Canada	1.90%	1.75%	-0.50%	0.50%	1.75%
U.S.	2.30%	2.00%	-0.50%	0.75%	1.75%
INFLATION (HEADLINE Y/Y)					
Canada	2.40%	2.00%	0.50%	1.25%	3.00%
U.S.	2.50%	2.00%	0.50%	1.25%	3.00%
SHORT-TERM RATES					
Bank of Canada (March 4, 2020)	1.25%	1.00%	0.00%	0.50%	1.25%
Federal Reserve (March 3, 2020)	1.25%	0.75%	0.00%	0.50%	1.25%
10-YEAR RATES					
Canada Government	1.13%	1.75%	0.50%	1.00%	2.50%
US Government	1.15%	1.75%	0.50%	1.00%	2.50%
PROFIT GROWTH (12 MONTHS FORWARD)					
Canada	6.1%	5.6%	-28.0%	-13.6%	3.2%
U.S.	8.3%	6.5%	-20.9%	-8.7%	-2.6%
EAFE	11.5%	3.7%	-21.2%	-6.2%	-0.4%
EM	15.9%	16.0%	-15.1%	-8.0%	6.1%
P/E (FORWARD 12 MONTHS)					
Canada	14.7X	16.5X	15.0X	14.0X	14.0X
U.S.	16.6X	19.0X	17.0X	16.0X	16.0X
EAFE	13.5X	16.0X	14.0X	12.0X	13.5X
EM	12.3X	15.0X	11.0X	11.0X	11.5X
CURRENCIES					
CAD/USD	0.75	0.79	0.65	0.65	0.83
EUR/USD	1.10	1.16	1.05	1.05	1.10
USD/JPY	107.89	105.00	90.00	95.00	120.00
COMMODITIES					
Oil (WTI, USD/barrel)	44.76	65.00	35.00	40.00	80.00

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MATRIX OF EXPECTED RETURNS

SCENARIOS	SUSTAINED GLOBAL EXPANSION	GLOBAL RECESSION	POLITICAL INSTABILITY	STAGFLATION
PROBABILITY	60%	15%	15%	10%
TRADITIONAL INCOME (BONDS)	**-0.3%**	**5.7%**	**3.6%**	**-4.2%**
Money Market	1.4%	0.9%	1.1%	1.5%
Canadian Bonds	-0.8%	6.9%	4.2%	-5.6%
NON-TRADITIONAL INCOME	**7.0%**	**5.0%**	**5.0%**	**3.0%**
TRADITIONAL CAPITAL APPRECIATION (STOCKS)	**9.2%**	**-21.8%**	**-15.7%**	**-16.7%**
Canadian Equity	11.6%	-30.8%	-22.5%	-7.5%
U.S. Equity	6.4%	-14.1%	-6.7%	-22.0%
International Equity	4.5%	-15.6%	-13.9%	-19.5%
Emerging Market Equity	15.6%	-24.6%	-18.3%	-22.8%
NON-TRADITIONAL CAPITAL APPRECIATION	**7.0%**	**1.0%**	**5.5%**	**5.0%**

CURRENT STRATEGY[1]

	MINIMUM	BENCHMARK	MAXIMUM	STRATEGY	ALLOCATION	RELATIVE
TRADITIONAL INCOME (BONDS)	**10.0%**	**30.0%**	**50.0%**	**Underweight**	**10.0%**	**-20.0%**
Money Market	0.0%	5.0%	40.0%	Neutral	5.0%	0.0%
Canadian Bonds	0.0%	25.0%	50.0%	Underweight	5.0%	-20.0%
NON-TRADITIONAL INCOME	**0%**	**20.0%**	**40%**	**Overweight**	**30.5%**	**+10.5%**
TRADITIONAL CAPITAL APPRECIATION (STOCKS)	**10%**	**30.0%**	**50%**	**Overweight**	**37.5%**	**+7.5%**
Canadian Equity	5.0%	10.0%	30.0%	Overweight	13.5%	+3.5%
U.S. Equity	0.0%	7.5%	25.0%	Neutral	7.5%	0.0%
International Equity	0.0%	7.5%	25.0%	Underweight	2.5%	-5.0%
Emerging Markets Equity	0.0%	5.0%	15.0%	Overweight	14.0%	+9.0%
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%

1 Based on a 100 basis point value added objective.

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CONTACT US

info@fieracapital.com
fiera.com

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

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

PW