Market Update

Fiera Capital Global Asset Allocation

MARCH 2021

The reflationary trade gathered some notable momentum in February as investors braced for massive US fiscal spending, which emboldened calls for a sharp revival in growth as global vaccinations accelerated and coronavirus infections receded. However, good news on the economic-front translated into some bad news for stock markets as investors contemplated the effects higher bond yields on the sustainability of the economic recovery, the outlook for corporate profits, and the record-breaking equity market rally. Investor enthusiasm faded somewhat on fears that faster growth and inflation could trigger a pullback in monetary stimulus, even after central bank officials reinforced their unrelenting support and stressed that there are no plans to tighten policy prematurely.

FINANCIAL MARKET DASHBOARD

	FEB. 26, 2021	FEB.	YTD	1 YEAR
EQUITY MARKETS		% PRICE CHANGE (LC)		
S&P 500	3811	2.61%	1.47%	29.01%
S&P/TSX	18060	4.17%	3.60%	11.05%
MSCI EAFE	2169	2.11%	0.99%	19.85%
MSCI EM	1339	0.73%	3.72%	33.19%
FIXED INCOME (%)		BASIS POINT CHANGE		
U.S. 10 Year Treasury Yield	1.40	33.9	49.2	25.6
U.S. 2 Year Treasury Yield	0.13	1.8	0.6	-78.6
U.S. Corp BBB Spread	1.10	-2.0	1.0	-35.0
U.S. Corp High Yield Spread	2.85	-39.0	-42.0	-223.0
CURRENCIES		% PRICE CHANGE		
CAD/USD	0.79	0.29%	-0.04%	5.13%
EUR/USD	1.21	-0.50%	-1.15%	9.51%
USD/JPY	106.57	1.81%	3.22%	-1.22%
COMMODITIES		% PRICE CHANGE		
WTI Oil (USD/bbl)	61.50	17.82%	26.75%	37.40%
Copper (USD/pound)	4.09	15.14%	16.35%	60.82%
Gold (USD/oz)	1728.80	-6.41%	-8.78%	10.35%

Global equity markets edged higher in February. The underlying sector performance underscored the reflationary narrative that took hold during the month. The cyclically-biased, value sectors whose fortunes are closely tied to the health of the global economy and the reopening trade outperformed their growth-oriented counterparts. Energy and financials fared particularly well in the environment of steepening yield curves and higher commodity prices. Meanwhile, the relatively expensive mega-cap technology space had more trouble digesting higher interest rates given their longer duration. The tech-heavy S&P 500 underperformed the S&P/TSX in February as the cyclical rotation boosted the Canadian benchmark, while the spike in US borrowing costs triggered some flight from the emerging market space.

Optimism on the growth outlook fuelled a profound selloff in fixed income markets. The Canadian Universe bond index shed 2.5%, while the US aggregate bond index was down 1.5% in February. While inflation expectations bounced higher, the back-up in bond yields was mainly attributed to renewed hopes for a rapid recovery that prompted investors to bring forward their expectations for tighter monetary policy. The yield on the 10-year treasury jumped by 34 basis points to 1.40%, while the 10-year Canadian government bond yield rose by 47 basis points to 1.36%.

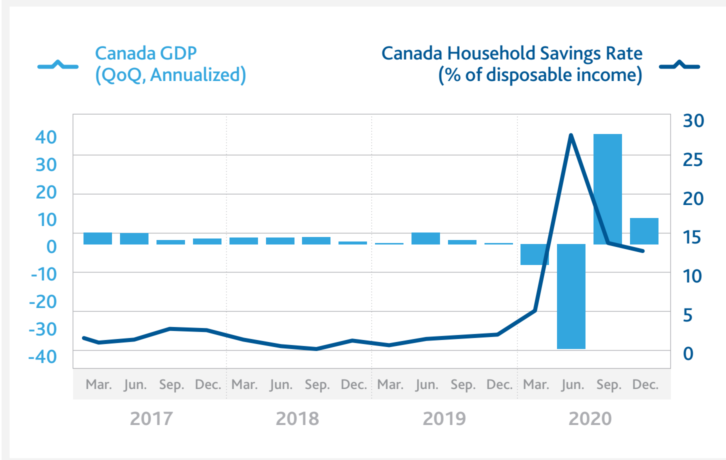
The greenback held firm amid the superior growth trajectory in the US, while unnerved investors also bid-up the safe haven currency late in the month. However, performance versus its major trading peers was mixed. Both the pound and the Canadian dollar managed to strengthen, while the euro and yen depreciated against the US dollar. The pound thrived as fading Brexit risks, reduced wagers for negative interest rate policy, and the UK's relative success in the vaccination rollout boosted the sterling. The Canadian dollar advanced thanks to the rapid ascent in crude prices and briefly touched the $0.80 mark for the first time in three years.

Oil continued its impressive climb as unusually frigid temperatures in Texas pummelled production and added to tightening market conditions. Indeed, expectations for a post-pandemic resurgence in demand and the discipline of OPEC and its allies in restraining output have been instrumental in rebalancing the market. Copper powered to a ten-year high given the prospect for robust industrial demand that's emerging at a time of historic global shortages of the red metal, while gold retreated as the environment of rising bond yields dampened the allure of the non-interest bearing metal.

Economic Overview

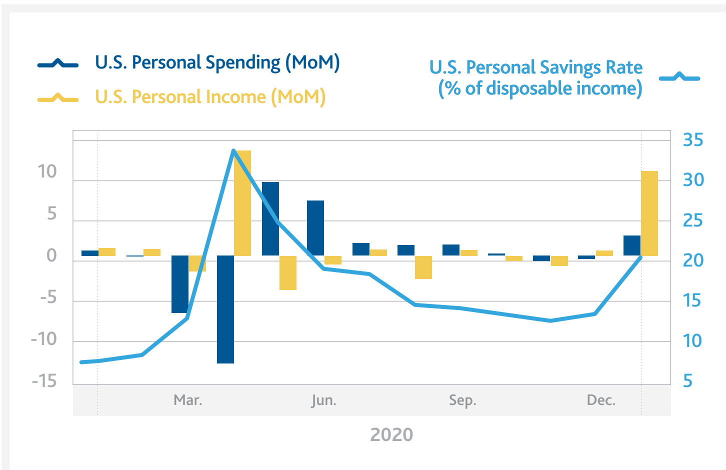
CANADA

The Canadian economy ended an erratic 2020 on an upbeat note. After a record-rebound in the third quarter, the Canadian economy expanded by a stronger-than-expected 9.6% annualized during the fourth quarter. Looking at the details, the raging housing market, solid business investment, increased government spending, and an inventory rebuild overshadowed some virus-related softness in household spending at year-end. Encouragingly, Statistics Canada has estimated monthly GDP in January at +0.5% even as tougher restrictions were imposed early-on in the new year, underscoring how both consumers and businesses have adapted to challenges posed by the pandemic. As vaccinations slowly but surely ramp-up, restrictions are eased, and the reopening progresses, economic activity should pick-up markedly, with Canada's growth drivers shifting towards household spending as consumers unleash their massive pent-up savings on purchases that were halted during the pandemic. Furthermore, the robust growth trajectory south of the border (Canada's largest trading partner) and persistent strength in the commodity complex should also add to Canada's recovery narrative in the coming year.



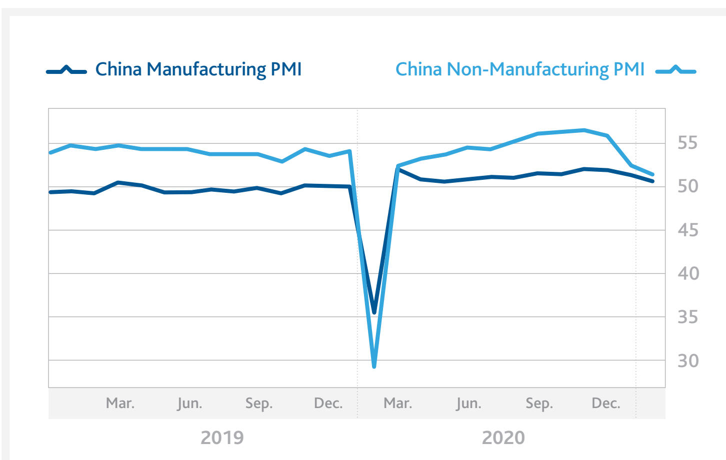
USA

The U.S. economy entered 2021 on solid footing as renewed fiscal stimulus and improving virus trends set the stage for a revitalization in activity. The consumer remains at the helm of the American economy. Household spending reaccelerated in January thanks to a spike in personal incomes. Of note, income support payments were distributed in early-January after policymakers passed the $900 billion relief package at year-end, which sent the personal savings rate soaring to 20.5%. And with another round of government stimulus measures on their way, the consumer will have plenty of firepower when normal spending behaviours resume. Indeed, the fast-tracked vaccine rollout has pulled forward the timeline for a return to normality. Given the latest approval of Johnson & Johnson's vaccine, the U.S. will have enough supply for 130 million people by the end of March. Taken together, the combination of an accelerated reopening, expansionary fiscal policy, and unrelenting monetary policy support have created a lucrative backdrop for the U.S. economy in 2021.



EMERGING

The Chinese recovery lost some ground in February as factories closed for the Lunar New Year holiday and as virus restrictions dampened what's typically a busy travel season. Both the manufacturing and the non-manufacturing purchasing manager indices (PMI) edged lower, but held firmly in expansionary terrain. The underlying components of the manufacturing index revealed that both production and new orders eased, but were consistent with continual growth. And while services were impacted by reduced travel over the holidays, consumption-related services activity registered firmer readings, with retailing, catering and entertainment all staying relatively active. The latest moderation should not be cause for alarm given that it reflects transitory factors pertaining to seasonality and the effects of the pandemic. As such, economic momentum should resume in the coming months, particularly given that both domestic and global growth prospects remain extremely bright. Importantly, the accompanying PMI surveys that measure forward-looking expectations for both the manufacturing and non-manufacturing sectors jumped higher in February, reinforcing this optimistic outlook for the Chinese economy.



Economic Scenarios

Main Scenario | Rapid Recovery

Probability **55%**

Our base case scenario calls for a swift return to normality in 2021. Several safe and effective vaccines prove successful in quashing the pandemic and are deployed in a timely manner, which allows for an accelerated reopening of larger parts of the global economy and a faster normalization in both consumer and business spending behaviours in the latter stages of the first half of 2021. As the wider population gets inoculated, both isolationism and social distancing measures abate and sentiment improves drastically in accordance. As a result, the animal spirits revive themselves and economic activity snaps back dramatically at a rapid pace during the first half of 2021 as pent-up demand is unleashed, particularly given that savings remain extraordinarily elevated across the globe. Meanwhile, the lagged impacts from the flood of monetary and fiscal stimulus already in place inevitably amplifies the rebound through 2021 and beyond. As a new cycle of robust and above-trend growth ensues and closes the output gap by year-end, newly announced stimulus measures are unlikely (and unnecessary) in this optimistic scenario.

Scenario 2 | Subdued Recovery

Probability **30%**

The emergence of multiple viable vaccines brings about a certain degree of confidence that the end of the pandemic is in sight, which greatly reduces the likelihood and the necessity for draconian lockdown measures beyond mid-2021. However, periodic setbacks on the road to immunity (namely logistical issues) push the timeline to widespread inoculation further out into the back half of the year, which ultimately restrains the magnitude of the recovery in the first half of 2021. As it takes longer to gain control over the propagation of the virus, social distancing behaviours linger-on and health fears prompt some reluctance from consumers and businesses to re-engage fully. Meanwhile, the global economy takes longer to reopen fully, while some lighter, localized confinement measures remain in place and dampen the growth trajectory in the first part of the year. As the economy takes longer to return to pre-COVID levels under this subdued recovery scenario, monetary and fiscal stimulus is almost certain to remain extremely accommodative over the 12-18 month time horizon.

Scenario 3 | Economic Relapse

Probability **15%**

The unrelenting spread and mutation of the coronavirus ultimately overwhelms vaccination efforts and engulfs the medical system, while unforeseen vaccine-related setbacks and questions about their efficacy derails the nascent recovery through 2021. Failure to contain the rampant outbreak morphs into the return of strict countermeasures and sends the global economy back into a full-blown recession. Specifically, virus mitigation efforts from governments that include quarantines, work stoppages, and restricted mobility fuels a steep contraction in global economic activity, with fearful consumers and businesses remaining isolated and reluctant to spend. 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 in the coming year. However, the fragile state of the economy and stubbornly-elevated unemployment ensures that both monetary and fiscal policy remain expansionary, which helps to alleviate any permanent damage in this calamitous scenario.

Forecasts for the Next 12 Months

SCENARIOS	FEB. 26, 2021	RAPID RECOVERY	SUBDUED RECOVERY	ECONOMIC RELAPSE
PROBABILITY		55%	30%	15%
GDP GROWTH 2021				
Global	5.50%	6.00%	4.50%	-4.50%
Canada	4.40%	6.00%	3.00%	-5.00%
U.S.	5.10%	7.00%	3.50%	-3.50%
INFLATION (HEADLINE Y/Y)				
Canada	1.00%	2.00%	1.50%	0.50%
U.S.	1.40%	2.00%	1.50%	0.50%
SHORT-TERM RATES				
Bank of Canada	0.25%	0.25%	0.25%	0.25%
Federal Reserve	0.25%	0.25%	0.25%	0.25%
10-YEAR RATES				
Canada Government	1.36%	1.65%	0.90%	0.50%
U.S. Government	1.40%	1.75%	1.00%	0.60%
PROFIT ESTIMATES (12 MONTHS FORWARD)				
Canada	1068	1100	1050	850
U.S.	177	185	165	150
EAFE	125	130	120	90
EM	84	90	80	55
P/E (FORWARD 12 MONTHS)				
Canada	16.9X	19.0X	17.5X	15.0X
U.S.	21.6X	22.5X	22.5X	16.0X
EAFE	17.3X	18.0X	18.0X	15.0X
EM	15.9X	17.5X	17.5X	13.0X
CURRENCIES				
CAD/USD	0.79	0.82	0.77	0.65
EUR/USD	1.21	1.25	1.15	1.00
USD/JPY	106.57	100.00	105.00	110.00
COMMODITIES				
Oil (WTI, USD/barrel)	61.50	70.00	50.00	20.00
Gold (USD/oz)	1728.80	1800.00	1900.00	2100.00

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

SCENARIOS	RAPID RECOVERY	SUBDUED RECOVERY	ECONOMIC RELAPSE
PROBABILITY	55%	30%	15%
TRADITIONAL INCOME	**-0.3%**	**3.0%**	**4.8%**
Money Market	0.3%	0.3%	0.3%
Canadian Bonds	-0.5%	3.7%	6.0%
NON-TRADITIONAL INCOME	**7.0%**	**6.5%**	**5.0%**
TRADITIONAL CAPITAL APPRECIATION	**9.3%**	**1.9%**	**-27.9%**
Canadian Equity	15.7%	1.7%	-29.4%
U.S. Equity	4.6%	-0.7%	-23.9%
International Equity	3.3%	1.5%	-24.8%
Emerging Market Equity	12.6%	6.6%	-35.5%
NON-TRADITIONAL CAPITAL APPRECIATION	**12.0%**	**7.0%**	**-5.0%**

Current Strategy[1]

	MINIMUM	BENCHMARK	MAXIMUM	STRATEGY	ALLOCATION	RELATIVE
TRADITIONAL INCOME	**10.0%**	**30.0%**	**50.0%**	**Underweight**	**10.0%**	**-20.0%**
Money Market	0.0%	5.0%	40.0%	Underweight	0.0%	-5.0%
Canadian Bonds	0.0%	25.0%	50.0%	Underweight	10.0%	-15.0%
NON-TRADITIONAL INCOME	**0%**	**20.0%**	**40%**	**Overweight**	**30.5%**	**+10.5%**
TRADITIONAL CAPITAL APPRECIATION	**10%**	**30.0%**	**50%**	**Overweight**	**37.5%**	**+7.5%**
Canadian Equity	5.0%	10.0%	30.0%	Overweight	17.5%	+7.5%
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.

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%
July 8, 2020	-20.0%	+10.5%	+7.5%	+2.0%

1 Based on a 100 basis point value added objective.

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