

TACTICAL ASSET ALLOCATION COMMITTEE MONTHLY COMMENTARY

MARCH 2020



FIERACAPITAL

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

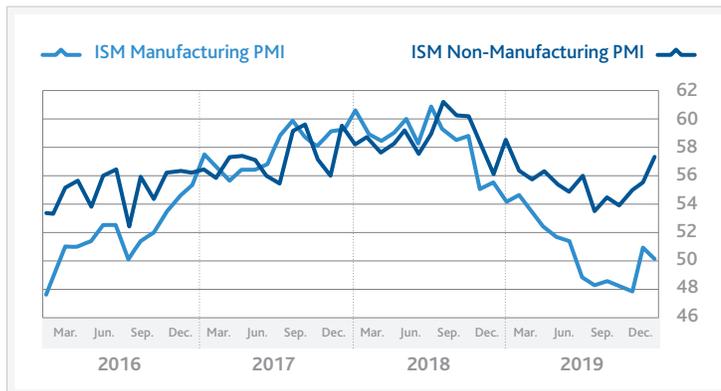
	FEB. 28, 2020	FEB.	YTD	1 YEAR	
EQUITY MARKETS					
		% PRICE CHANGE (LC)			
S&P 500	2954	-8.41%	-8.56%	6.10%	
S&P/TSX	16263	-6.09%	-4.69%	1.65%	
MSCI EAFE	1810	-9.23%	-11.16%	-3.42%	
MSCI EM	1006	-5.35%	-9.79%	-4.32%	
FIXED INCOME (%)					
		BASIS POINT CHANGE			
US 10 Year Bond Yield	1.15	-35.8	-76.9	-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.

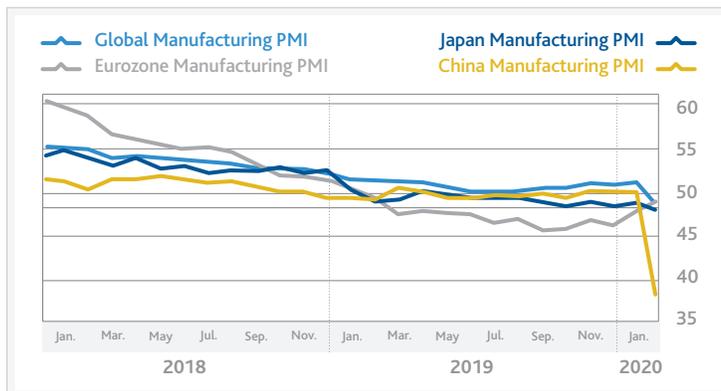
Mounting fears about the global impacts of the fast-spreading coronavirus saw traders seek a refuge in government bonds and drove yields to unprecedented lows, while expectations for weaker global growth, declining inflation expectations, and increased bets for central bank easing also added to the downward 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.

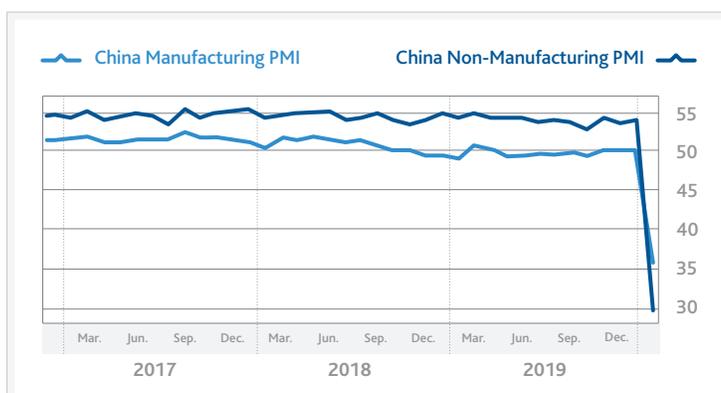
Finally, the shock from the viral outbreak saw commodity prices plunge lower as the fast-spreading epidemic sparked fears about global growth prospects and accordingly, commodity demand. Oil assumed the brunt of the weakness and slipped below \$45/barrel ahead of a crucial OPEC+ meeting about whether 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.



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 pummeled 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.

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.

EMERGING

Survey data for February highlighted the devastating impact of the coronavirus on the Chinese economy. Factory closures and strained supply chains sent the manufacturing sector tumbling back into recession, while the services sector has been shattered by efforts to contain the virus that included mobility restrictions and reduced tourism. The good news is that policymakers have made reviving the economy and reaching their stated growth targets a top priority. Already, the People's Bank of China has lowered a series of benchmark interest rates and injected liquidity into an already-abundant system, while fiscal policy is also becoming more assertive. Meanwhile, factories are re-opening and the economy is gradually returning to work, with the economy operating at 60-70% capacity (up from 50% a few weeks ago). As such, while near-term activity data is certain to be uninspiring, we expect the Chinese economy to regain some ground in the coming months – particularly as the epidemic appears to have peaked in the mainland.

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 intentions 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%
U.S.	2.30%	2.00%	-0.50%	0.75%	1.75%
INFLATION (HEADLINE Y/Y)					
U.S.	2.50%	2.00%	0.50%	1.25%	3.00%
U.S. RATES					
Fed Funds (March 3, 2020)	1.25%	0.75%	0.00%	0.50%	1.25%
10-Year Treasuries	1.15%	1.75%	0.50%	1.00%	2.50%
30-Year Treasuries	1.68%	2.25%	0.75%	1.25%	2.75%
PROFIT ESTIMATES (12 MONTHS FORWARD)					
S&P 500	164	175	130	150	160
MSCI EAFE	134	125	95	113	120
MSCI EM	82	82	60	65	75
P/E (FORWARD 12 MONTHS)					
S&P 500	16.6X	19.0X	17.0X	16.0X	16.0X
MSCI EAFE	13.5X	16.0X	14.0X	12.0X	13.5X
MSCI EM	12.3X	15.0X	11.0X	11.0X	11.5X
CURRENCIES					
EUR/USD	1.10	1.16	1.05	1.05	1.10
USD/JPY	107.89	105.00	90.00	95.00	120.00
GBP/USD	1.28	1.35	1.30	1.15	1.30
CAD/USD	0.75	0.79	0.65	0.65	0.83
COMMODITIES					
Oil (WTI, USD/barrel)	44.76	65.00	35.00	40.00	80.00

Discussions regarding potential future events and their impact on the markets are based solely on historic 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 ANNUAL RETURNS (USD)

SCENARIOS	SUSTAINED GLOBAL EXPANSION	GLOBAL RECESSION	POLITICAL INSTABILITY	STAGFLATION
PROBABILITY	60%	15%	15%	10%
US Money Market	1.3%	0.9%	1.1%	1.5%
US Bonds	-6.0%	1.2%	-1.7%	-10.7%
US Equity	12.6%	-25.2%	-18.8%	-13.3%
International Equity	10.5%	-26.5%	-25.1%	-10.5%
Emerging Market Equity	22.3%	-34.4%	-28.9%	-14.2%

CURRENT STRATEGY¹

	MINIMUM	BENCHMARK	MAXIMUM	STRATEGY	ALLOCATION	RELATIVE
MONEY MARKET	0.0%	5.0%	25.0%	Neutral	5.0%	0.0%
TRADITIONAL INCOME	5.0%	30.0%	85.0%	Underweight	20.0%	-10.0%
US Government Bonds	0.0%	15.0%	50.0%	Underweight	5.0%	-10.0%
US Corporate Bonds	0.0%	5.0%	50.0%	Neutral	5.0%	0.0%
Tax Exempt US Bonds	0.0%	5.0%	25.0%	Neutral	5.0%	0.0%
Non US Bonds	0.0%	5.0%	25.0%	Underweight	0.0%	-5.0%
Preferred Stock	0.0%	0.0%	25.0%	Overweight	5.0%	+5.0%
TRADITIONAL CAPITAL APPRECIATION	15.0%	65.0%	95.0%	Overweight	75.0%	+10.0%
US Equity	10.0%	35.0%	60.0%	Overweight	37.5%	+2.5%
International Equity	5.0%	25.0%	40.0%	Underweight	22.5%	-2.5%
Emerging Market Equity	0.0%	5.0%	25.0%	Overweight	15.0%	+10.0%

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. Discussions regarding potential future events and their impact on the markets are based solely on historic 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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Information related to indices and benchmarks has been provided by, and/or is based on third party sources, and although believed to be reliable, has not been independently verified. No representation is made that any benchmark or index is an appropriate measure for comparison. It is not possible to invest directly in an index. Investors pursuing a strategy similar to an index may experience higher or lower returns and will bear the cost of fees and expenses, which will reduce returns. Index results assume the reinvestment of all dividends and capital gains. The S&P 500 Index (SPX) is a stock market index made up of approximately 500 US large cap stocks. The index comprises a collection of stocks of 500 leading companies and captures 80% coverage of available market capitalization.

The S&P/TSX composite index is the Canadian equivalent to the S&P 500 market index in the United States. The S&P/TSX Composite Index contains stocks of the largest companies on the Toronto Stock Exchange (TSX). The index is calculated by Standard and Poor's, and contains both common stock and income trust units.

The Morgan Stanley Capital International ("MSCI") EM Index is a stock market index that consists of the following 23 emerging market country indexes: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Greece, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Peru, Philippines, Poland, Qatar, Russia, South Africa, Taiwan, Thailand, Turkey and United Arab Emirates. The Morgan Stanley Capital International ("MSCI") EAFE Index is a stock market index made up of approximately 909 constituents. It is often used as a common benchmark for international stock funds. The index comprises the MSCI country indexes capturing large and mid-cap equities across developed markets in Europe, Australasia and the Far East, excluding the U.S. and Canada.

The ISM Manufacturing Index is based on surveys of more than 300 manufacturing firms by the Institute for Supply Management (ISM). The ISM Manufacturing Index monitors employment, production, inventories, new orders and supplier deliveries. A composite diffusion index monitors conditions in national manufacturing and is based on the data from these surveys. Export Orders PMI measure the movement of merchandise trade leaving a country. This measure tracks the value of merchandise trade by the Institute for Supply Management (ISM).

Global manufacturing PMI indices are compiled by IHS Markit from responses to monthly questionnaires sent to purchasing managers in survey panels in over 40 countries (see table, right for full coverage), totalling around 13,500 companies. These countries account for 98% of global manufacturing value added. UK Manufacturing Purchasing Managers' Index measures the performance of the manufacturing sector and is derived from a survey of 600 industrial companies. The Manufacturing Purchasing Managers Index is based on five individual indexes with the following weights: New Orders (30 percent), Output (25 percent), Employment (20 percent), Suppliers' Delivery Times (15 percent) and Stock of Items Purchased (10 percent), with the Delivery Times index inverted so that it moves in a comparable direction. A reading above 50 indicates an expansion of the manufacturing sector compared to the previous month; below 50 represents a contraction; while 50 indicates no change.

The Japan Manufacturing Purchasing Managers' Index measures the performance of the manufacturing sector and is derived from a survey of 400 industrial companies. The Manufacturing Purchasing Managers Index is based on five individual indexes with the following weights: New Orders (30 percent), Output (25 percent), Employment (20 percent), Suppliers' Delivery Times (15 percent) and Stock of Items Purchased (10 percent), with the Delivery Times index inverted so that it moves in a comparable direction. A reading above 50 indicates an expansion of the manufacturing sector compared to the previous month; below 50 represents a contraction; while 50 indicates no change.

The Eurozone Manufacturing Purchasing Managers' Index (PMI) measures the activity level of purchasing managers in the manufacturing sector. National manufacturing data are included for Germany, France, Italy, Spain and the Republic of Ireland. A reading above 50 indicates expansion in the sector; below 50 indicates contraction. Traders watch these surveys closely as purchasing managers usually have early access to data about their company's performance, which can be a leading indicator of overall economic performance. JPM Global manufacturing PMI indices are compiled by IHS Markit from responses to monthly questionnaires sent to purchasing managers in survey panels in over 40 countries, totalling around 13,500 companies. These countries account for 98% of global manufacturing value added.

The China Manufacturing Purchasing Managers Index is based on a survey of around 700 to 800 companies. It is a government-sponsored survey aimed at tracking business conditions in the Chinese manufacturing sector ahead of official economic statistics, while also providing insight into wider economic trends.

In China, the Non-Manufacturing purchasing managers index survey is based on data collected from a representative panel of 1200 enterprises from the non-manufacturing sector. The survey includes ten questions on business activity, new orders, new export orders, in hand orders index, stock, intermediate input price, subscription price, employment, supplier delivery time, and business activities expectation. For each question, the diffusion index is calculated.