

Fiera Capital Global Asset Allocation

MONTHLY UPDATE: MAY 2022



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Volatility lingered-on in April and sent financial markets into a tailspin. Macroeconomic risks intensified and sentiment deteriorated amid China's efforts to suppress COVID-19, the ongoing war in Ukraine, persistently elevated inflation, and an aggressive monetary tightening cycle – which when taken together have dampened the outlook for growth and weighed on both stocks and bonds.

FINANCIAL MARKET DASHBOARD				
	APRIL 29, 2022	APRIL	YTD	1 YEAR
EQUITY MARKETS		% PRICE CHANGE (LC)		
S&P 500	4132	-8.80%	-13.31%	-1.18%
S&P/TSX	20762	-5.15%	-2.17%	8.65%
MSCI EAFE	2034	-6.78%	-12.94%	-10.35%
MSCI EM	1076	-5.75%	-12.65%	-20.14%
FIXED INCOME (%)		BASIS POINT CHANGE		
U.S. 10 Year Treasury Yield	2.93	59.6	142.4	130.8
U.S. 2 Year Treasury Yield	2.71	38.0	198.2	255.6
U.S. Corp BBB Spread	1.79	22.0	58.0	70.0
U.S. Corp High Yield Spread	4.05	43.0	135.0	169.0
CURRENCIES		% PRICE CHANGE		
CAD/USD	0.78	-2.75%	-1.73%	-4.45%
EUR/USD	1.05	-4.72%	-7.26%	-12.27%
USD/JPY	129.70	6.57%	12.70%	18.65%
COMMODITIES		% PRICE CHANGE		
WTI Oil (USD/bbl)	104.69	4.40%	39.20%	64.66%
Copper (USD/pound)	4.39	-7.49%	-1.53%	-1.88%
Gold (USD/oz)	1911.70	-1.92%	4.54%	8.15%

Global equity markets saw their worst monthly performance since the onset of the pandemic in March 2020, with the MSCI All Country World dropping 8.1% in April. Growth stocks trailed their value counterparts as the sharp rise in interest rates hurt the frothy growth sectors that have future profits at risk. Consequently, the U.S. benchmarks led the monthly decline, with the S&P 500 falling 8.8% and the NASDAQ tumbling 13.5%. The S&P/TSX fell 5.2%, with positive results in the heavyweight energy sector leading to outperformance versus its global peers. Looking abroad, international developed stocks were down 6.8%, while emerging markets (-5.7%) outperformed developed markets after China equities pared earlier losses following the Communist Party Politburo's vow to prop up the flagging economy.

Fixed income markets extended their 2022 rout as major central banks deepened their hawkish tilt in response to runaway inflation. The 10 year treasury yield rose by 60 basis points to 2.93%, while the 2 year treasury yield rose by 38 basis points to 2.71% as accelerating cost pressures and a hot labor market boosted the case for a rapid rise in the fed funds rate – with Chair Powell citing the importance of “front-loading” the removal of policy accommodation. Similarly in Canada, the 2 year government bond yield rose by 33 basis points to 2.62%, while the 10 year yield rose by 46 basis points to 2.87%. After the Bank of Canada raised interest rates by 50 basis points in mid-April, Governor Macklem voiced the potential for another 50 basis point move in June and reiterated the need to act “forcefully” to wrestle down inflation. The FTSE Canada Bond Universe was down -3.5% in April, while the Barclays US Aggregate lost -3.8%.

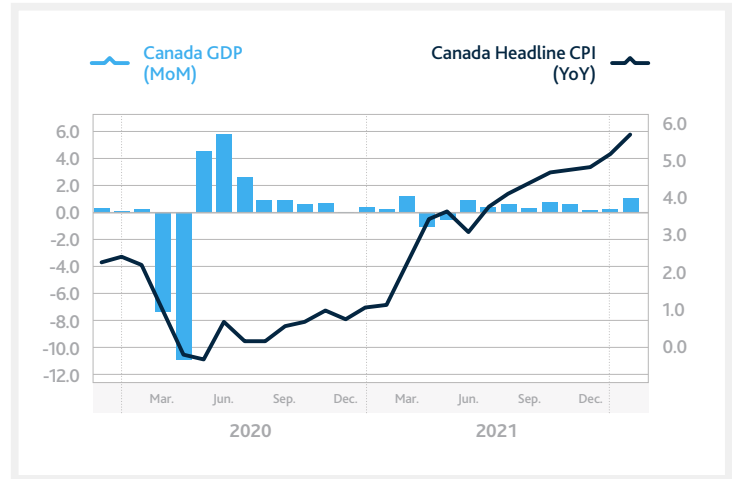
The US dollar extended its run of unrelenting strength and rallied to a five-year high, with wagers for an aggressive fed funds tightening trajectory boosting the yield appeal of the greenback versus its developed market peers. The dollar got an extra boost after the Bank of Japan doubled-down on its bond buying operations to keep a lid on yields, underscoring the policy divergence between a dovish Bank of Japan and a hawkish Fed.

Finally, crude oil prices fluctuated as investors weighed the impact of China's lockdowns and the fallout from the Ukraine war on global energy demand and supply. Still, oil managed to post a fifth monthly gain, its longest winning streak since January 2018. By contrast, gold retreated as the sharp back-up in bond yields and a stronger US dollar both weighed on the yellow metal.

Economic Overview

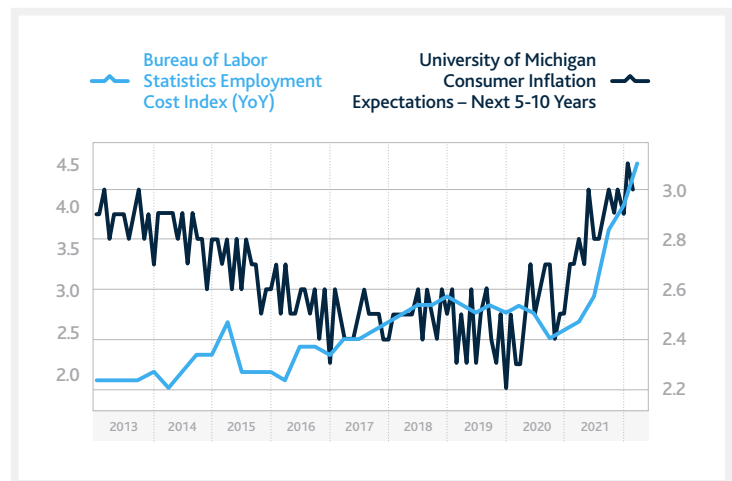
CANADA

The Canadian economy showed some resilience at the beginning of 2022, cementing the Bank of Canada's aggressive path for rate hikes. The economy surged 1.1% m/m in February, which marked the 9th straight monthly gain. The increase in activity was widespread, with output expanding in 16 of 20 sectors. The goods-producing sector rose 1.5% m/m, while the service-producing sector rose 0.9% m/m. Within services, the reopening saw the accommodation/food services sector rebound 15.1%. Looking forward, the estimate from Statistics Canada is pointing towards a strong gain of 0.5% m/m in March, which has first quarter GDP tracking at roughly double the Bank of Canada's projection from the April Monetary Policy Report. These latest results confirm expectations that Canada's expansion will outpace growth in many advanced economies this year, in part because of the country's commodity exposure. Taken together, with the economy moving into excess demand and inflation running at multi-decade highs, Bank of Canada Governor Macklem has promised to deliver "forceful" action to quell inflation, including the possibility of another 50 basis point move in June.



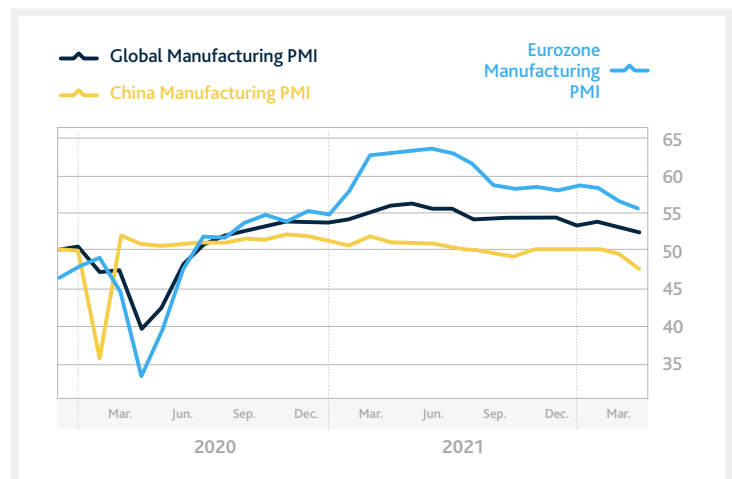
UNITED STATES

The U.S. economy contracted by an annualized 1.4% in the first quarter. However, the underwhelming headline figure masks some positive dynamics in the economy, including an acceleration in both consumer and business spending that are an indication of strong domestic demand. Meanwhile, the Personal Income and Outlays report for March confirmed that consumption held firm in the first quarter, even despite higher prices as consumers tapped into their excess savings accumulated during the pandemic. Looking ahead, inflation risks are skewed to the upside and the economy is expected to downshift amid more forceful monetary action. Employment costs jumped by the most on record at the start of 2022, underscoring how rising wages are a key part of the inflationary picture, and if sustained, will keep pressure on the Federal Reserve to take a more assertive policy approach. Furthermore, the war in Ukraine and lockdowns in major Chinese hubs continue to disrupt global supply chains and are putting upward pressure on prices, which has increased the risk that inflation expectations become unhinged to the upside.



INTERNATIONAL

The International Monetary Fund (IMF) slashed its world growth forecast by the most since the early months of the pandemic, and projected even faster inflation, after Russia's invasion of Ukraine and as China reinstated stringent lockdowns to suppress the latest COVID outbreak. In its World Economic Outlook, the IMF is forecasting that global growth will slow to 3.6% in 2022, down from a forecast of 4.4% in January. The largest markdowns were in Europe and Asian nations exposed to rising energy import prices. Consistent with this narrative, the global manufacturing purchasing manager indices (PMI) for April were fairly uninspiring and underscored the looming threat of stagflation stemming from the war in Ukraine and COVID-19 lockdowns in China that are exacerbating already-elevated inflationary pressures and dampening growth. The global manufacturing PMI fell to 52.2, its lowest level since August 2020. China saw the biggest deterioration, with the manufacturing PMI falling further into contraction terrain at 47.4 (from 49.5), while the Eurozone manufacturing PMI showed a slowing trend and eased to 55.5, the lowest since January 2021.



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	APRIL 29, 2022	STAGFLATION	RECESSION	SOFT LANDING
PROBABILITY		55%	35%	10%
GDP GROWTH 2022				
Global	3.50%	2.50%	2.00%	4.00%
Canada	3.90%	2.50%	1.50%	3.80%
U.S.	3.20%	2.00%	1.00%	3.50%
GDP GROWTH 2023				
Global	3.40%	2.00%	1.50%	3.50%
Canada	2.80%	1.50%	0.00%	2.50%
U.S.	2.10%	1.00%	-1.00%	2.00%
INFLATION (HEADLINE Y/Y)				
Canada	6.70%	8.00%	7.00%	6.00%
U.S.	8.50%	9.00%	8.00%	7.00%
SHORT-TERM RATES 2022				
Bank of Canada	1.00%	2.50%	3.00%	2.00%
Federal Reserve	0.50%	2.50%	3.00%	2.00%
SHORT-TERM RATES 2023				
Bank of Canada	1.00%	3.50%	4.50%	3.00%
Federal Reserve	0.50%	4.50%	5.00%	3.00%
10-YEAR RATES				
Canada Government	2.87%	3.50%	4.00%	3.00%
U.S. Government	2.93%	3.50%	4.50%	3.20%
PROFIT ESTIMATES (12 MONTHS FORWARD)				
Canada	1550	1400	850	1450
U.S.	234	225	150	250
EAFE	154	160	90	165
EM	91	90	55	95
P/E (FORWARD 12 MONTHS)				
Canada	13.4X	15.5X	14.0X	17.0X
U.S.	17.7X	18.5X	17.0X	20.0X
EAFE	13.2X	13.0X	12.0X	14.5X
EM	11.8X	12.0X	11.0X	13.0X
CURRENCIES				
CAD/USD	0.78	0.85	0.70	0.90
EUR/USD	1.05	1.15	1.00	1.20
USD/JPY	129.70	110.00	115.00	100.00
COMMODITIES				
Oil (WTI, USD/barrel)	104.69	90.00	60.00	95.00
Gold (USD/oz)	1911.70	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%	2.0%	1.5%
Canadian Bonds	-2.3%	-4.7%	0.9%
NON-TRADITIONAL INCOME			
Diversified Credit	7.0%	5.0%	8.0%
Diversified Real Estate	7.0%	4.0%	8.0%
Infrastructure	6.5%	5.0%	7.5%
Agriculture	7.5%	6.0%	8.5%
TRADITIONAL CAPITAL APPRECIATION			
Canadian Equity Large Cap	4.5%	-42.7%	18.7%
U.S. Equity Large Cap	-7.9%	-31.5%	4.5%
International Equity	-6.4%	-41.0%	1.6%
Emerging Market Equity	-8.2%	-37.6%	-0.9%
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 Strategy¹

TRADITIONAL AND NON-TRADITIONAL PORTFOLIOS

	MINIMUM	BENCHMARK	MAXIMUM	STRATEGY	+/-
Money Market	0%	5%	25%	10%	+5%
Canadian Bonds	5%	25%	45%	5%	-20%
Canadian Equity Large Cap	10%	20%	40%	35%	+15%
U.S. Equity Large Cap	0%	10%	20%	0%	-10%
International Equity	0%	10%	20%	5%	-5%
Emerging Market Equity	0%	5%	15%	5%	0%
Non-Traditional Income	5%	25%	45%	40%	+15%

TRADITIONAL PORTFOLIOS

	MINIMUM	BENCHMARK	MAXIMUM	STRATEGY	+/-
TRADITIONAL INCOME	20%	40%	60%	40%	0%
Money Market	0%	5%	25%	10%	+5%
Canadian Bonds	5%	35%	55%	30%	-5%
TRADITIONAL CAPITAL APPRECIATION	40%	60%	80%	60%	0%
Canadian Equity Large Cap	5%	25%	50%	40%	+15%
U.S. Equity Large Cap	0%	15%	30%	5%	-10%
International Equity	0%	15%	30%	10%	-5%
Emerging Market Equity	0%	5%	15%	5%	0%

Evolution of Value-Added¹



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

	Money Market	Canadian Bonds	Canadian Equity	U.S. Equity	International Equity	Emerging Market Equity	Non-traditional Income
January 1, 2006	+20%	-16%	-8%	+6%	-2%		
February 17, 2006	+16%	-10%	-10%	+6%	-2%		
April 4, 2006	+10%	-10%	0%	0%	0%		
May 9, 2006	+4%	-10%	+2%	+2%	+2%		
June 21, 2006	0%	-10%	+2%	+2%	+6%		
July 19, 2006	-10%	0%	+2%	+2%	+6%		
December 6, 2006	0%	-10%	+2%	+2%	+6%		
January 1, 2007	+5%	-10%	0%	+2%	+3%		
February 22, 2007	-5%	0%	0%	+2%	+3%		
March 9, 2007	0%	0%	-3%	0%	+3%		
June 29, 2007	0%	0%	-6%	-4%	+10%		
September 29, 2007	+6%	0%	-6%	-4%	+4%		
January 10, 2008	+12%	0%	-6%	-4%	-2%		
March 1, 2008	+16%	0%	-6%	-4%	-6%		
September 20, 2008	+8%	0%	-3%	-2%	-3%		
March 9, 2009	+8%	-8%	0%	0%	0%		
June 8, 2009	+8%	+2%	-4%	-3%	-3%		
December 9, 2009	+15%	-5%	-4%	-3%	-3%		
May 6, 2010	+15%	-15%	0%	0%	0%		
December 13, 2010	+10%	-15%	5%	0%	0%		
April 7, 2011	+10%	-10%	0%	0%	0%		
July 4, 2011	+10%	-15%	+5%	0%	0%		
August 10, 2011	+5%	-15%	+5%	+5%	0%		
October 5, 2011	+7%	-15%	+8%	0%	0%		
October 12, 2011	+6%	-10%	+4%	0%	0%		
November 11, 2011	+5%	0%	0%	0%	-5%		
December 7, 2011	0%	0%	+5%	0%	-5%		
April 20, 2012	+15%	-20%	+10%	0%	-5%		
July 31, 2012	+20%	-15%	0%	0%	-5%		
November 9, 2012	+10%	-15%	+10%	0%	-5%		
February 19, 2013	+5%	-15%	+10%	0%	0%		
August 6, 2013	0%	-15%	+10%	+5%	0%		
December 3, 2013	+10%	-15%	+5%	0%	0%		
February 5, 2014	0%	-15%	+10%	+10%	-5%		
October 14, 2014	0%	-20%	+5%	+10%	+5%		
November 14, 2014	+10%	-20%	+2.5%	+2.5%	+5%		
July 13, 2015	0%	-20%	+7%	+4%	+9%		
October 19, 2015	0%	-20%	+11%	0%	+9%		
June 24, 2016	+9%	-20%	+11%	0%	0%		
July 12, 2016	0%	-20%	+15%	0%	0%	+5%	
July 27, 2016	+5%	-20%	+12.5%	0%	0%	+2.5%	
October 31, 2016	0%	-20%	+12.5%	0%	0%	+7.5%	
April 5, 2017	+5%	-15%	+7.5%	0%	-5%	+7.5%	
December 6, 2017	+15%	-15%	+5%	-5%	-5%	+5%	
October 9, 2018	+15%	-15%	+5%	-10%	-5%	+10%	
November 9, 2018	0%	-20%	+5%	-10%	-5%	+10%	+20%
December 17, 2018	-5%	-20%	+5%	-5%	-5%	+10%	+20%
July 12, 2019	-5%	-20%	+5%	0%	-5%	+10%	+15%
March 24, 2020	0%	-15%	0%	0%	0%	0%	+15%
July 8, 2020	-5%	-20%	+10%	0%	0%	0%	+15%
March 11, 2021	-5%	-20%	+15%	-5%	0%	0%	+15%
August 2, 2021	+5%	-20%	+15%	-10%	-5%	0%	+15%

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