

Fiera Capital Global Asset Allocation

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The third quarter got off to a roaring start. While recession fears have been building given the Federal Reserve's most aggressive tightening cycle in decades, a string of positive economic data surprises and signs of easing inflationary pressures provided a dose of optimism that policymakers may achieve a soft landing whereby central banks return price stability without tipping the economy into recession. Meanwhile, the cascade of second quarter corporate earnings results have been stronger-than-expected, which also bolstered investor risk appetite in July.

FINANCIAL MARKET DASHBOARD				
	JULY 31, 2023	JULY	YTD	1 YEAR
EQUITY MARKETS		% PRICE CHANGE (LC)		
S&P 500	4589	3.11%	19.52%	11.11%
S&P/TSX	20627	2.34%	6.41%	4.74%
MSCI EAFE	2199	3.17%	13.14%	13.53%
MSCI EM	1047	5.80%	9.47%	5.35%
FIXED INCOME (%)		BASIS POINT CHANGE		
U.S. 10 Year Treasury Yield	3.96	12.2	8.4	131.0
U.S. 2 Year Treasury Yield	4.88	-1.9	45.1	199.2
U.S. Corp BBB Spread	1.65	-5.0	-21.0	-38.0
U.S. Corp High Yield Spread	4.34	-32.0	-75.0	-74.0
CURRENCIES		% PRICE CHANGE		
EUR/USD	1.10	0.81%	2.73%	7.60%
CAD/USD	0.76	0.38%	2.75%	-2.99%
USD/JPY	142.29	-1.40%	8.52%	6.77%
COMMODITIES		% PRICE CHANGE		
WTI Oil (USD/bbl)	81.80	15.80%	1.92%	-17.06%
Copper (USD/pound)	4.01	7.14%	5.18%	12.16%
Gold (USD/oz)	1970.50	2.13%	7.90%	11.78%

Source: Bloomberg, as of July 31, 2023.

Global equity markets surged higher in July, with the MSCI All Country World rising 3.6%. Emerging markets (+5.8%) led the global charge on the back of stimulus pledges in China. Meanwhile in developed markets (+3.3%), the S&P 500 advanced 3.1% on hopes for a soft landing, while the better-than-expected second quarter earnings season also supported US stocks. Elsewhere, the S&P/TSX gained 2.3% as commodity prices pushed broadly higher, while the MSCI EAFE gained 3.2%.

Fixed income markets generated negative results last month. Yield curves steepened in a bearish fashion. Longer-term bond yields saw a more profound upward move following a rush of robust US economic data, while the risk-on mood in the market dampened demand for long-term bonds. Adding to the upward move in global bond yields was the Bank of Japan's surprise tweak to its yield curve control (YCC) program, where the central bank indicated it would tolerate higher yields on 10-year government bonds. For the month, the FTSE Canada Bond Universe declined by 1.1%, while the Barclays US Aggregate Bond Index shed 0.1%.

The US dollar lost some steam in July after easing consumer inflation in the US prompted calls for a less-hawkish Federal Reserve. By contrast, the Canadian dollar strengthened alongside the latest surge in crude prices and a relatively hawkish Bank of Canada that saw interest rate spreads between Canada and the US narrow. Elsewhere, the yen shot higher following the Bank of Japan's adjustment to its yield curve control program, while both the euro and the pound advanced against a broadly weaker greenback.

In commodity markets, crude oil posted its biggest monthly gain since January 2022 amid signs that the market is tightening, with estimates that crude demand is running at a record clip just as OPEC+ cuts back production. WTI crude rallied close to 16% to \$81.80/barrel, the highest level since April. Gold notched its best month since March as cooling US inflation spurred hopes that interest rates have peaked, which is supportive for gold which bears no interest. Finally, copper hit a three-month high amid growing optimism over the outlook for Chinese demand following pledges for stimulus, while mounting supply risks in top producing Chile also supported the red metal last month.

Economic Overview



UNITED STATES

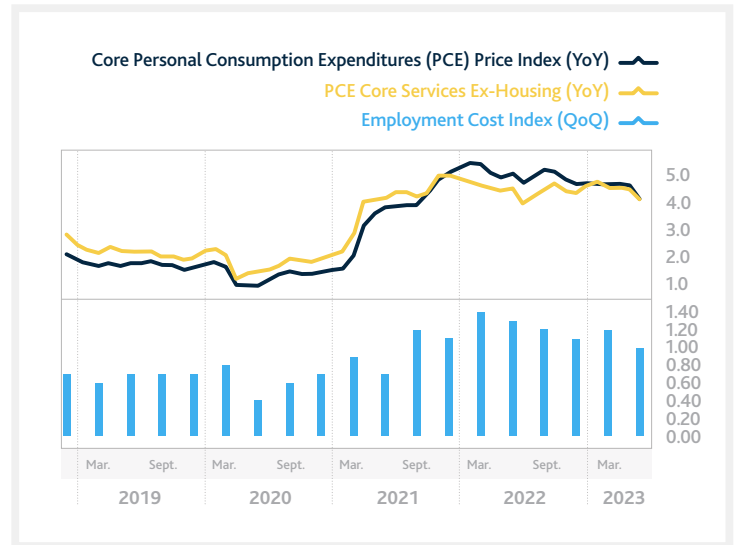
The Federal Reserve raised rates to a 22-year high of 5.25% to 5.50% in July. Chair Powell said the September meeting would be “live” for another hike depending “on the totality of incoming data.” However, the latest inflation and wage data suggests there may be little urgency to raise rates next month. Notably, the core personal consumption expenditure (PCE) price index (the Fed’s preferred gauge of underlying inflation) eased to 4.1% y/y in June, down from 4.6% y/y in May. The closely-monitored “supercore” measure which captures price changes for core services excluding housing also slowed to 4.1% y/y, the lowest since mid-2022. Finally, the Employment Cost Index, a broad gauge of wages and benefits considered the most reliable indicator of wage growth, increased 1% in the second quarter, the slowest advance since 2021. While trending in the right direction, inflation is still hovering well-above the Fed’s target and suggests that rates will remain in restrictive terrain well-into 2024. So even if a recession is avoided, tepid economic growth is to be expected.

INTERNATIONAL

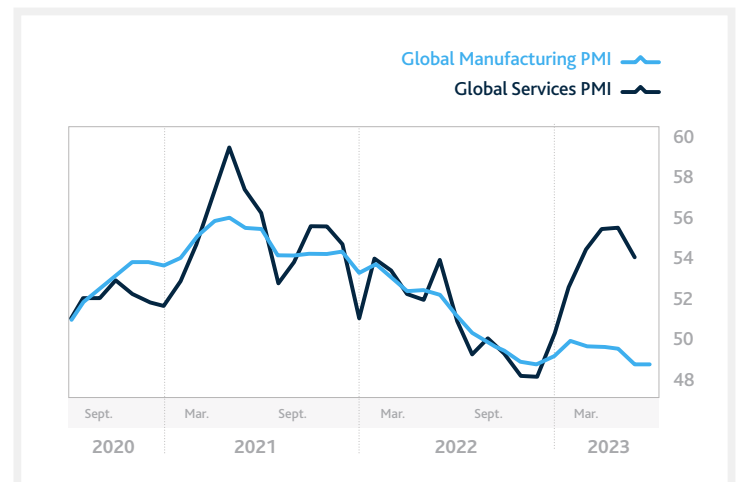
The purchasing manager indices (PMI) for July sent a mixed signal about factory and service sector conditions across the developed market economies. The US Composite PMI edged lower but remained firmly in expansion terrain. Weakness was driven by the services space, while the factory sector unexpectedly improved. The Eurozone data was particularly weak, with an unexpected decline in both the manufacturing and services gauges driving the composite PMI to its lowest since November. Taken together, the data underscores that the factory sector remains the greatest source of weakness across developed market economies given that the manufacturing PMI’s all remain in contraction terrain, while the services PMI’s have held firmly in expansion-mode. However, the gap appears to be narrowing and suggests that while the manufacturing downturn may be nearing a bottom, tight monetary policy is now weighing on demand for services. A continuation of the latter remains a headwind for global growth (and equities) over a cyclical investment horizon.

EMERGING

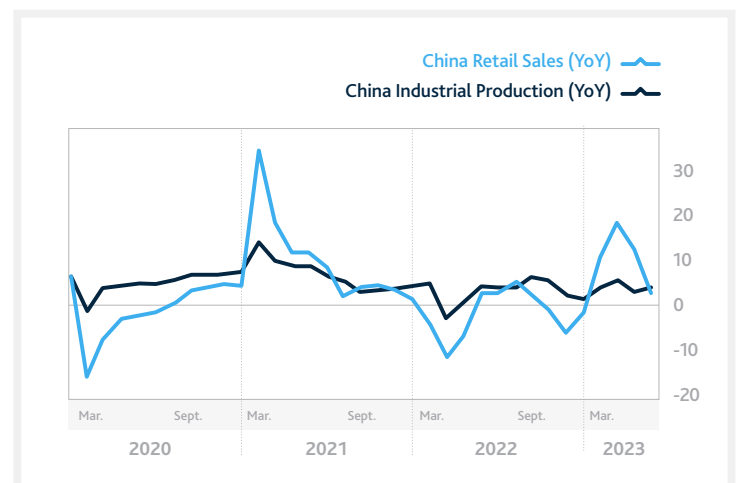
The activity data out of China underscored that the economy lost some momentum at the end of the second quarter. Gross domestic product grew at a slower-than-expected pace of 6.3% compared with a year earlier. Meanwhile, retail sales growth slumped to just 3.1% y/y in June from 12.7% y/y in May, though industrial production unexpectedly picked-up to 4.4% y/y and points to some stabilization in the factory sector. The PMI survey data corroborated this message and revealed that economic softness extended into the third quarter, with manufacturing contracting again and the services sector showing unexpected deterioration in July. In response to the flagging economic recovery, officials in Beijing have pledged measures of support – with both monetary and fiscal stimulus looming in the months ahead. While the People’s Bank of China may cut the policy rate and the reserve requirement ratio, the government is also putting greater focus on addressing the issue of weak confidence, with a focus on boosting consumption, help for private businesses, and a more supportive stance towards the property sector.



Source: Bloomberg, as of July 31, 2023.



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Source: Bloomberg, as of July 31, 2023.

Economic Scenarios



Main Scenario | Stagflation

Probability **55%**

As policymakers are unable to simultaneously achieve their inflation and growth targets, they are forced to choose between the two and opt to prioritize the economy and live with above-target inflation. In our high probability “Stagflationary” scenario, well-anchored long-term inflation expectations and tentative signs of easing wage and price pressures allow the Federal Reserve to tolerate above-target inflation for longer, with the central bank abandoning its tightening campaign at levels that would avoid an outright contraction in growth. Global growth slows to below-potential levels, but global inflation remains elevated and above-target. So long as the economy is operating below its potential, supply-demand imbalances would subsequently rebalance and allow inflation to subside, albeit over a longer period of time. While less-dire than the hard landing recessionary scenario, the lingering risk of a self-fulfilling wage price spiral where wage and price setters increasingly orient themselves to higher inflation rates could potentially translate into even steeper rate hikes down the road and a prolonged period of economic stagnation.

Scenario 2 | Deep Recession

Probability **30%**

In the hard landing recession scenario, stubbornly elevated inflation that proves increasingly entrenched triggers the continuation of aggressive monetary tightening that inevitably sparks a recession. The depth and magnitude of the recession ultimately hinges on how persistent inflation proves to be, and on how much pain policymakers are willing to inflict on the economy in order to bring inflation down to levels deemed acceptable. While goods prices subside, underlying “core” inflation proves to be more sticky and entrenched, with continued resilience in the labor market and consumer spending slowing the descent of wage and services inflation. Inflation expectations de-anchor and spiral higher in response, which forces central banks to prioritize tackling inflation in order to restore their inflation-control credibility, regardless of the economic fallout. As a result, central banks tighten monetary policy much more assertively and keep rates in restrictive terrain for longer. Policymakers are unlikely to pause the rate hike cycle until they see more convincing evidence that inflation is subsiding meaningfully, which when combined with the delayed impact of cumulative monetary tightening to date ultimately means that central banks will be hiking interest rates well into economic weakness, making way for a “Deep Recession.”

Scenario 3 | Disinflation

Probability **15%**

In the “Disinflation” scenario, the economy proves to be much weaker than previously thought, which when combined with the disinflationary forces from cumulative monetary policy tightening and tighter credit conditions sends inflation spiraling lower towards 2% without dipping the economy into recession. This disinflationary impulse prompts central bankers to pause their tightening campaign in the back-half of 2023. By 2024, enough deceleration of economic activity will have occurred that the Federal Reserve eventually transitions from an on-hold monetary policy stance towards interest rate cuts. Consequently, the economy averts a hard landing economic scenario, and a new economic cycle begins in mid-2024.

Forecasts for the Next 12-18 Months



SCENARIOS	JULY 31, 2023	STAGFLATION	DEEP RECESSION	DISINFLATION
PROBABILITY		55%	30%	15%
GDP GROWTH				
Global	2.70%	2.50%	1.00%	3.50%
U.S.	0.60%	0.50%	-2.00%	2.50%
Canada	0.80%	1.00%	-1.00%	2.00%
INFLATION (HEADLINE Y/Y)				
U.S.	3.00%	4.50%	2.50%	2.50%
Canada	2.80%	3.50%	2.00%	2.50%
SHORT-TERM RATES				
Federal Reserve	5.50%	5.50%	6.00%	4.00%
Bank of Canada	5.00%	5.00%	5.50%	3.50%
10-YEAR RATES				
U.S. Government	3.96%	4.50%	5.00%	3.50%
Canada Government	3.50%	4.50%	5.00%	3.00%
PROFIT ESTIMATES (12 MONTHS FORWARD)				
U.S.	234	240	200	260
Canada	1430	1500	1300	1600
EAFE	158	155	125	165
EM	75	80	65	85
P/E (12 MONTHS FORWARD)				
U.S.	19.6X	17.0X	15.0X	19.5X
Canada	14.4X	14.5X	12.0X	15.5X
EAFE	13.9X	14.0X	12.0X	16.0X
EM	14.0X	13.0X	11.0X	15.0X
CURRENCIES				
EUR/USD	1.10	1.15	1.00	1.12
CAD/USD	0.76	0.85	0.75	0.80
COMMODITIES				
Oil (WTI, USD/barrel)	81.80	130.00	90.00	100.00
Gold (USD/oz)	1970.50	2100.00	1900.00	2000.00

Source: Fiera Capital, as of July 31, 2023.

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. Past performance is not a guarantee of future results. Inherent in any investment is the potential for loss.

Portfolio Strategy



Matrix of Expected Returns (USD)

SCENARIOS	STAGFLATION	DEEP RECESSION	DISINFLATION
PROBABILITY	55%	30%	15%
TRADITIONAL INCOME			
Money Market	5.5%	5.8%	4.8%
U.S. Investment Grade Bonds	-1.8%	-5.3%	4.2%
NON-TRADITIONAL INCOME			
Diversified Credit	8.0%	6.0%	7.0%
Diversified Real Assets	8.0%	5.0%	7.0%
TRADITIONAL CAPITAL APPRECIATION			
U.S. Equity	-11.1%	-34.6%	10.5%
International Equity	-1.3%	-31.8%	20.0%
Emerging Market Equity	-0.7%	-31.7%	21.8%
NON-TRADITIONAL CAPITAL APPRECIATION			
Private Equity & Placements	12.0%	5.0%	15.0%
Liquid Alternatives	5.0%	0.0%	7.5%

Source: Fiera Capital, as of July 31, 2023.

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Current Strategy¹

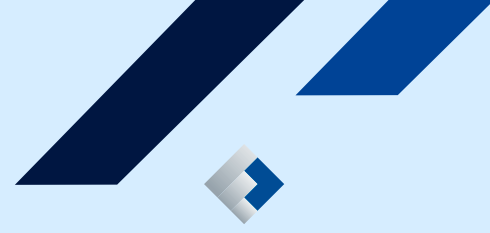


TRADITIONAL AND NON-TRADITIONAL PORTFOLIOS

	MINIMUM	BENCHMARK	MAXIMUM	STRATEGY	+/-
TRADITIONAL INCOME	0.0%	17.5%	40.0%	17.5%	0.0%
Money Market	0.0%	0.0%	40.0%	17.5%	+17.5%
U.S. Investment Grade Bonds	0.0%	17.5%	40.0%	0.0%	-17.5%
NON-TRADITIONAL INCOME	0.0%	30.0%	50.0%	38.5%	+8.5%
Diversified Credit	0.0%	12.0%	25.0%	15.5%	+3.5%
Diversified Real Assets	0.0%	18.0%	40.0%	23.0%	+5.0%
TRADITIONAL CAPITAL APPRECIATION	17.5%	37.5%	57.5%	27.5%	-10.0%
U.S. Equity	0.0%	20.0%	40.0%	15.0%	-5.0%
International Equity	0.0%	12.5%	20.0%	7.5%	-5.0%
Emerging Market Equity	0.0%	5.0%	20.0%	5.0%	0.0%
NON-TRADITIONAL CAPITAL APPRECIATION	0.0%	15.0%	40.0%	16.5%	+1.5%
Private Equity	0.0%	10.0%	25.0%	11.0%	+1.0%
Liquid Alternatives	0.0%	5.0%	15.0%	5.5%	+0.5%

Source: Fiera Capital, as of July 31, 2023.

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. Past performance is not a guarantee of future results. Inherent in any investment is the potential for loss.



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