Fiera Capital Global Asset Allocation

MONTHLY UPDATE: DECEMBER 2021

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Volatility resurfaced in November, with unnerved investors weighing the impact of the omicron virus on the global economy and signs that the Federal Reserve may accelerate its efforts to curb inflation. With omicron now circulating across the globe and reliable empirical data about the transmissibility and severity of the strain not yet available, investors will likely need to brace for weeks of uncertainty and more sporadic bouts of financial market volatility as they await clarity on the threat posed by the new variant. This latest health risk adds to the wall of worry that investors are already contending with, including elevated inflation, monetary policy normalization, and slowing growth.

FINANCIAL MARKET DASHBOARD

	NOV. 30, 2021	NOV.	YTD	1 YEAR
EQUITY MARKETS		% PRICE CHANGE (LC)		
S&P 500	4567	-0.83%	21.59%	26.10%
S&P/TSX	20660	-1.79%	18.51%	20.18%
MSCI EAFE	2224	-4.79%	3.55%	8.27%
MSCI EM	1212	-4.14%	-6.11%	0.61%
FIXED INCOME (%)		BASIS POINT CHANGE		
U.S. 10 Year Treasury Yield	1.44	-10.8	53.1	60.5
U.S. 2 Year Treasury Yield	0.57	6.8	44.4	41.7
U.S. Corp BBB Spread	1.25	15.0	16.0	6.0
U.S. Corp High Yield Spread	3.32	64.0	5.0	-53.0
CURRENCIES		% PRICE CHANGE		
CAD/USD	0.78	-3.07%	-0.36%	1.80%
EUR/USD	1.13	-1.90%	-7.19%	-4.94%
USD/JPY	113.17	-0.68%	9.61%	8.49%
COMMODITIES		% PRICE CHANGE		
WTI Oil (USD/bbl)	66.18	-20.81%	36.40%	45.96%
Copper (USD/pound)	4.28	-2.06%	21.57%	25.07%
Gold (USD/oz)	1773.60	-0.58%	-6.41%	-0.12%

Global equity markets retreated in November, with all major benchmarks contributing to the monthly decline. Developed markets outperformed their emerging market peers. The S&P 500 managed to fare better than other regional indices as heavyweight sectors such as technology and discretionary delivered positive results and countered weakness elsewhere across the market. The S&P/TSX also pulled back amid a steep drop in the energy sector, while international developed stocks were dragged lower by a huge Covid outbreak in Europe and the prospect for another round of lockdowns.

Fixed income markets generated positive results as risk appetite wavered and prompted investors to flock to the safety of government bonds amid concerns that the new Covid strain may spread globally and dampen economic growth. Yield curves flattened, with the U.S. 10 year treasury yield falling 11 basis points to 1.44%, while the 2 year treasury yield rose by 7 basis points to 0.57% as investors ramped-up their wagers for an earlier start to the rate hiking cycle following the strongest U.S. inflation print in over three decades and a hawkish pivot at the Federal Reserve. Of note, Chair Powell took an uncharacteristically hawkish-leaning turn and said officials should consider removing pandemic support at a faster pace, potentially setting the stage for an earlier fed funds liftoff. Moreover, he went on to say that its time to retire the word "transitory" in describing the inflation outlook.

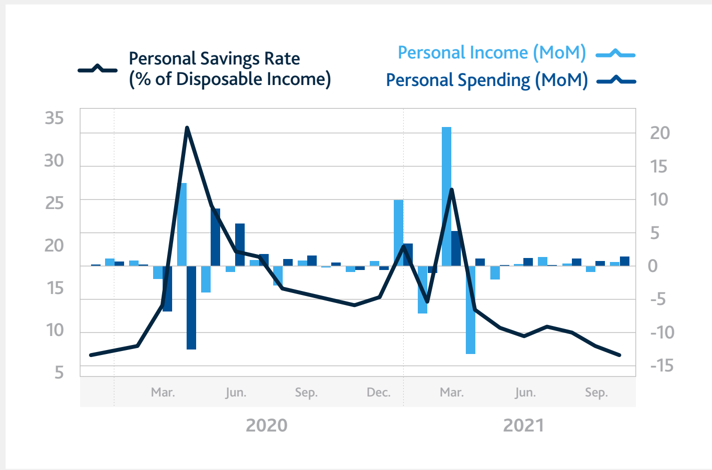
The US dollar strengthened against most of its major trading partners, thanks to a flurry of robust U.S. economic data that boosted expectations for an accelerated path of policy normalization. The greenback also thrived as nervous investors sought out a refuge in the safe haven currency. By contrast, the Canadian dollar depreciated by 3% alongside the steep collapse in crude oil prices and as traders reduced exposure to commodity-driven currencies in the wake of the renewed Covid threat. This marked the worst monthly drop since the depths of the pandemic in March 2020.

Finally, crude oil sunk into a bear market after major consuming nations led by the U.S. released crude from strategic reserves, while investors also contemplated risks posed by the new omicron variant and its impact on global energy demand. Gold posted a narrow decline as Federal Reserve officials hinted at a more rapid removal of pandemic-era stimulus in response to accelerating inflation, which buoyed the US dollar and blunted support for bullion.

Economic Overview

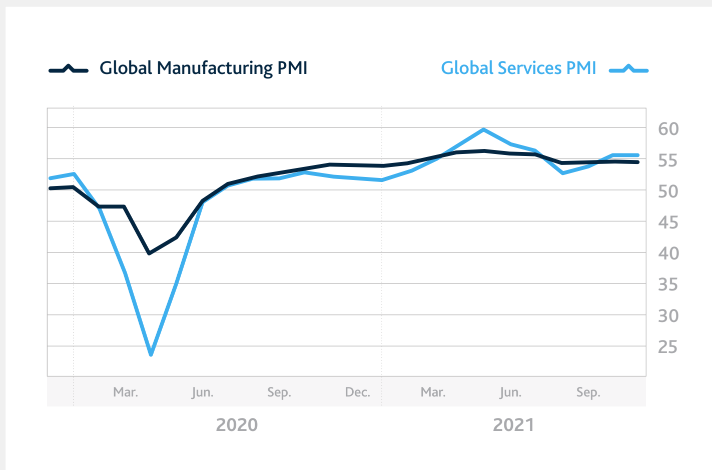
UNITED STATES

The U.S. Personal Income and Outlays report revealed that the consumer remains in healthy shape heading into the holiday shopping season, with solid wage growth and a sizeable nest egg providing the financial means to spend even in the wake of higher prices. Personal incomes rose by a stronger-than-expected 0.5% m/m in October. Compensation of employees was the highest contributor to growth, as employment continued to make gains in October. Consequently, personal spending accelerated by 1.3% m/m, with broad-based gains across both the goods and services space. The personal saving rate dropped to 7.3% (below the pre-pandemic average of 7.5%) as consumers continue to unleash their pent-up savings. Meanwhile, the consequence of too much demand chasing too little supply of goods is inflation. The core PCE price index (the Federal Reserve's preferred target measure) jumped to 4.1% y/y, the highest reading since 1991. Taken together, it would appear that the combination of strong gains in employment, wage growth, and elevated savings have more than compensated for inflation's hit to spending power.



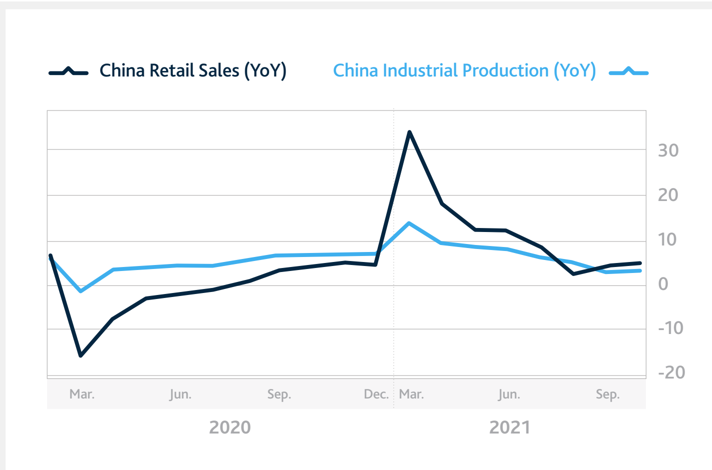
INTERNATIONAL

The global purchasing manager indices held firm November, suggesting that the macroeconomic backdrop among developed market economies remains solid. Both service providers and manufacturers remained optimistic and the broad economy maintained momentum even in light of accelerating inflation, severe supply disruptions, and hiring difficulties. However, the omicron variant has brought into question calls for the global economy to enter 2022 on a firmer footing. The risk is that this latest mutation necessitates a return to growth-crippling lockdowns, which would threaten already-strained supply chains and weigh on demand. Governments have thus far shown a reluctance to rush back into stringent lockdowns, while high vaccination rates mean that curbs that have been put in place are more flexible and less damaging to growth. A more benign outcome is that the mutation doesn't prove as threatening and the economic reaction could be muted and short-lived. What comes next will be dictated by what scientists discover about the new variant, including how resistant it is to vaccines and how much more transmissible it is than the Delta variant which raged in recent months without sending economies back toward recessions.



EMERGING

In China, the activity data for October revealed that growth momentum turned somewhat more positive at the start of the fourth quarter and offered some assurance that the economy is not sliding deeper into a rut. The economy performed better than expected as retail sales climbed and as energy shortages eased, though a slump in property and rising Covid outbreaks show the recovery isn't yet on solid ground. Meanwhile, China's purchasing manager indices were mixed in November. While the factory gauge popped back into expansion terrain as some letup in the power shortage saw a revival in production, the non-manufacturing PMI edged marginally lower as regional flareups of COVID-19 dampened services activity. The outlook for the world's second largest economy remains fraught with uncertainty, and the latest emergence of the omicron variant is adding to this narrative. This puts the spotlight back on policymakers and implies that both monetary and fiscal policy are likely to become more supportive heading into the new year.



Economic Scenarios

Main Scenario | Reflationary Recovery

Probability **50%**

Our base case scenario calls for the global economic recovery to extend at an above-trend pace over the next 12 to 18 months, without the fear of a premature monetary policy tightening event. The successful rollout of several safe and effective vaccines and/or treatments ultimately accelerates the return to economic normality. As the wider population gets inoculated and as virus trends improve, both isolationism and social distancing measures abate and sentiment improves drastically. Restrictions are relaxed and the reopening progresses across the larger economy. In response, economic activity snaps back dramatically as pent-up demand is unleashed, particularly given that savings remain extraordinarily elevated across the globe, which amplifies the nascent recovery. Meanwhile, inflation expectations remain well-anchored, which allows policymakers to look through the post-pandemic surge in inflationary pressures and extend their highly-accommodative monetary policy stance. While central bank asset purchases are indeed set to be scaled-down through 2022, the bar for interest rate increases remains higher over this 12-18 month timeframe. Nevertheless, both the Federal Reserve and the Bank of Canada begin the gradual rate normalization process by 2023 given that their respective economies will be operating at full potential and output gaps will be closed. Still, the policy transition from extremely stimulative towards a neutral stance occurs progressively over several years, extending the longevity and visibility of the economic cycle.

Scenario 2 | Stagflation

Probability **40%**

A growing risk to our base case scenario is that the world economy turns stagflationary in nature, a toxic combination of slowing global growth and accelerating prices. The "Stagflation" scenario assumes that inflationary pressures shift persistently higher and de-anchors inflation expectations, with global economic prospects subsiding amid the fallout. Specifically, the near-term spike in pricing pressures proves more enduring than expected, and lasts long enough to become embedded in inflation expectations. Supply-chain dislocations take longer to correct, while shortages and subdued participation in the labour force become more long-lasting given lingering health-related fears of returning to work, the structural shift in demographics (ageing populations), or skills mismatches in the post-pandemic reality. The subsequent rise in input costs and the rapid buildup in wages cuts into the profitability of corporations, consumers struggle to maintain their purchasing power, and inflation expectations become de-anchored. In response, policymakers abandon their perceived tolerance for higher inflation and act aggressively to stem the inflationary spiral. This assertive and hawkish-leaning policy adjustment sparks a moderation in global growth to well-below potential levels. The stagnation in global growth occurs concurrently with an acceleration in inflation and tighter monetary policy, creating a tumultuous financial market landscape whereby both equities and bonds experience declines amid a marked deterioration in the macroeconomic landscape.

Scenario 3 | Economic Relapse

Probability **10%**

Another wildcard continues to be the emergence of highly-transmissible COVID-19 variants that have become the dominant strain across much of the globe. Failure to keep the pandemic under control risks a more protracted period of restrictions that delays the return to normal and jeopardizes the imminent recovery. At the same time, vaccine hesitancy in some parts of the world has created a hurdle to reaching herd immunity and fully eradicating COVID-19. As it takes longer to gain control over the propagation of the virus, mitigation efforts from governments and 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 confinement measures are reinstated and fuel a steep contraction in growth. However, the silver lining is that the fragile state of the economy and stubbornly-elevated unemployment ensures that monetary and fiscal policy remain expansionary, which helps to alleviate any permanent damage in this calamitous risk-off scenario.

Forecasts for the Next 12-18 Months

SCENARIOS	NOVEMBER 30, 2021	REFLATIONARY RECOVERY	STAGFLATION	ECONOMIC RELAPSE
PROBABILITY		**50%**	**40%**	**10%**
GDP GROWTH 2021				
Global	5.80%	6.00%	5.00%	-4.50%
Canada	5.00%	5.50%	5.00%	-5.00%
U.S.	5.50%	6.00%	6.00%	-3.50%
GDP GROWTH 2022				
Global	4.40%	5.00%	3.50%	-4.50%
Canada	4.10%	3.50%	1.50%	-5.00%
U.S.	3.90%	4.50%	1.50%	-3.50%
INFLATION (HEADLINE Y/Y)				
Canada	4.70%	4.00%	4.50%	0.50%
U.S.	6.20%	4.00%	4.50%	0.50%
SHORT-TERM RATES				
Bank of Canada	0.25%	1.00%	1.75%	0.25%
Federal Reserve	0.25%	1.00%	1.75%	0.25%
10-YEAR RATES				
Canada Government	1.57%	3.00%	3.50%	0.50%
U.S. Government	1.44%	3.00%	3.50%	0.50%
PROFIT ESTIMATES (12 MONTHS FORWARD)				
Canada	1332	1315	1150	850
U.S.	219	220	205	150
EAFE	159	155	145	90
EM	93	100	90	55
P/E (FORWARD 12 MONTHS)				
Canada	15.5X	17.0X	16.0X	15.0X
U.S.	20.9X	20.0X	19.5X	16.0X
EAFE	14.1X	15.0X	14.5X	14.0X
EM	13.0X	14.0X	13.0X	12.0X
CURRENCIES				
CAD/USD	0.78	0.90	0.85	0.65
EUR/USD	1.13	1.25	1.15	1.00
USD/JPY	113.17	100.00	105.00	110.00
COMMODITIES				
Oil (WTI, USD/barrel)	66.18	90.00	75.00	35.00
Gold (USD/oz)	1773.60	1800.00	1900.00	2100.00

Portfolio Strategy

Matrix of Expected Returns

SCENARIOS	REFLATIONARY RECOVERY	STAGFLATION	ECONOMIC RELAPSE
PROBABILITY	**50%**	**40%**	**10%**
TRADITIONAL INCOME			
Money Market	0.6%	1.0%	0.3%
Canadian Bonds	-5.8%	-8.0%	8.0%
NON-TRADITIONAL INCOME			
Diversified Credit	8.0%	7.0%	5.0%
Diversified Real Estate	8.0%	7.0%	4.0%
Infrastructure	7.5%	6.5%	5.0%
Agriculture	8.5%	7.5%	6.0%
TRADITIONAL CAPITAL APPRECIATION			
Canadian Equity Large Cap	8.2%	-10.9%	-38.3%
U.S. Equity Large Cap	-16.2%	-19.4%	-36.7%
International Equity	-9.1%	-13.0%	-31.8%
Emerging Market Equity	0.4%	-11.2%	-34.5%
NON-TRADITIONAL CAPITAL APPRECIATION			
Private Equity	15.0%	12.0%	5.0%
Liquid Alternatives	7.0%	5.0%	0.0%

Current Strategy[1]

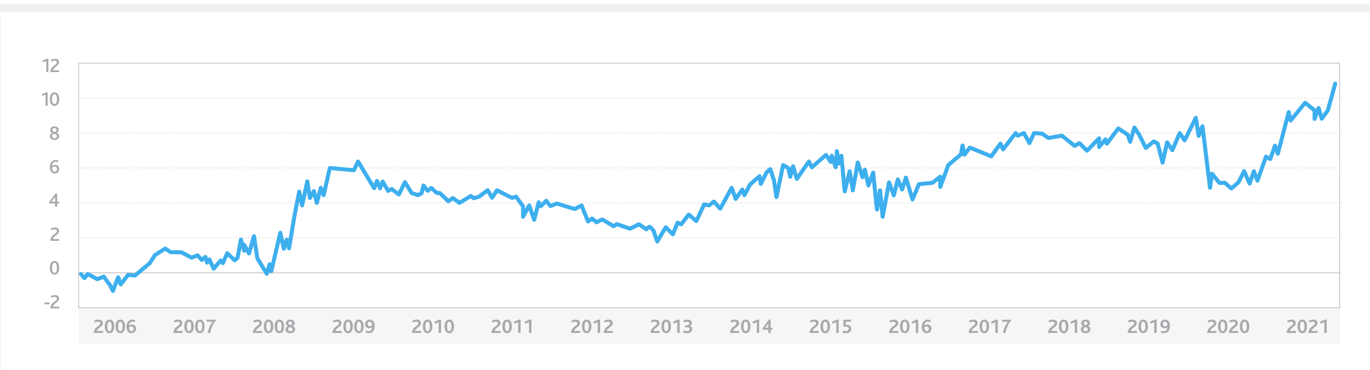
TRADITIONAL AND NON-TRADITIONAL PORTFOLIOS

	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-Added[1]



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-traditioal 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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