

Fiera Capital Global Asset Allocation

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Jean-Guy Desjardins

Executive Chairman of the Board
& Co-Lead Global Asset Allocation



Candice Bangsund, CFA

Vice President &
Co-Lead Global Asset Allocation

Despite some turbulence in early December, financial markets ended 2021 on an upbeat note. Initially, volatility gripped the marketplace as investors contemplated the implications of monetary policy tightening and the Omicron variant on the global economy, with global policymakers looking through temporary pandemic-induced economic risks and shifting their focus to the threat from inflation. However, sentiment improved towards year-end as investors took some solace in early evidence that the health impacts of the Omicron variant are relatively mild and amid optimism that the global economic recovery will overcome the renewed health threat. That being said, financial market volatility resurfaced as 2022 kicked-off, with the prospect of more aggressive Fed policy unsettling investors early-on in the new year.

FINANCIAL MARKET DASHBOARD				
	DEC. 31, 2021	DEC.	YTD	1 YEAR
EQUITY MARKETS		% PRICE CHANGE (LC)		
S&P 500	4766	4.36%	26.89%	26.89%
S&P/TSX	21223	2.72%	21.74%	21.74%
MSCI EAFE	2336	5.05%	8.78%	8.78%
MSCI EM	1232	1.62%	-4.59%	-4.59%
FIXED INCOME (%)		BASIS POINT CHANGE		
U.S. 10 Year Treasury Yield	1.51	6.6	59.7	59.7
U.S. 2 Year Treasury Yield	0.73	16.7	61.1	61.1
U.S. Corp BBB Spread	1.21	-4.0	12.0	12.0
U.S. Corp High Yield Spread	2.70	-62.0	-57.0	-57.0
CURRENCIES		% PRICE CHANGE		
CAD/USD	0.79	1.11%	0.75%	0.75%
EUR/USD	1.14	0.28%	-6.93%	-6.93%
USD/JPY	115.08	1.69%	11.46%	11.46%
COMMODITIES		% PRICE CHANGE		
WTI Oil (USD/bbl)	75.21	13.64%	55.01%	55.01%
Copper (USD/pound)	4.46	4.34%	26.84%	26.84%
Gold (USD/oz)	1828.60	3.10%	-3.51%	-3.51%

Global equity markets regained some momentum in mid-December and marched higher towards year-end as investors looked beyond the near-term risks to economic activity stemming from the Omicron variant. The MSCI All Country World ended the month nearly 4% higher and hovered just below its record high. All major benchmarks ended the month in positive terrain, with developed markets extending their run of outperformance versus their emerging market peers.

North American bond markets produced some mixed results. In the US, treasury yields edged higher following the hawkish-pivot at the Federal Reserve, where policymakers accelerated the pace of their quantitative easing taper and projected a steeper forecast for the fed funds rate, which led to a material rise in short-term yields. However, there has been little effect on the long-end of the curve as long-term inflation expectations have remained fairly stable. Meanwhile, Canadian government bond yields trended lower after the Bank of Canada stayed the course and refrained from altering its statement language that would have more clearly signaled a rate hike in the first quarter of 2022. As traders went into the meeting pricing a January rate hike as a near certainty, investors tempered those expectations following the status quo outcome. Consequently, the US bond market posted negative results in December (-0.3%), while the Canadian bond market generated a monthly gain (+1.7%).

The US dollar retreated in December as risk appetite resurfaced and dampened demand for the safe haven currency. Still, the dollar gauge posted its best annual return since 2015. The Canadian dollar advanced alongside the monthly rally in crude prices and ended 2021 as the only G-10 currency to strengthen versus the US dollar. The pound rallied after the Bank of England defied expectations and raised interest rates in December, while the Japanese yen weakened on bets the Bank of Japan will trail other global central banks in normalizing monetary policy.

After tumbling into a bear market in November, crude oil staged a remarkable turnaround in December as fears over the new strain of the coronavirus receded, while energy consumption has thus far escaped a major blow from the new variant. Gold also rose as investors sought out a hedge to unrelenting pricing pressures, while the weaker greenback also boosted prices. Finally, copper found some support as investors assessed the potential for stimulus from China after top officials pledged to counteract growth pressures and prioritized stabilizing the economy in 2022.

Economic Overview

UNITED STATES

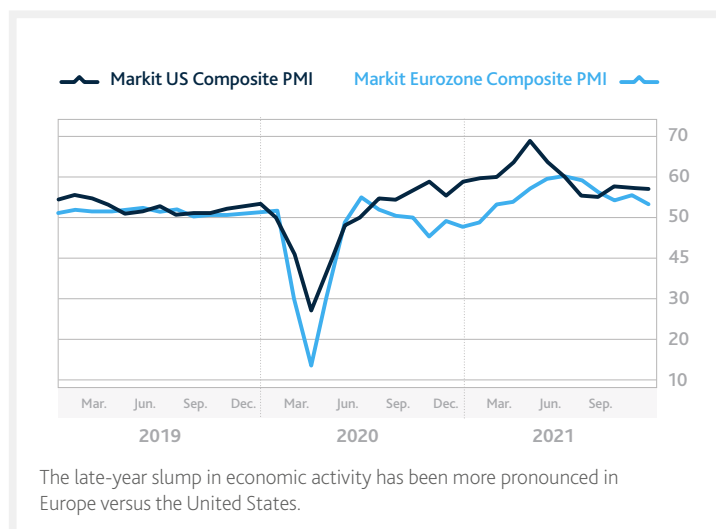
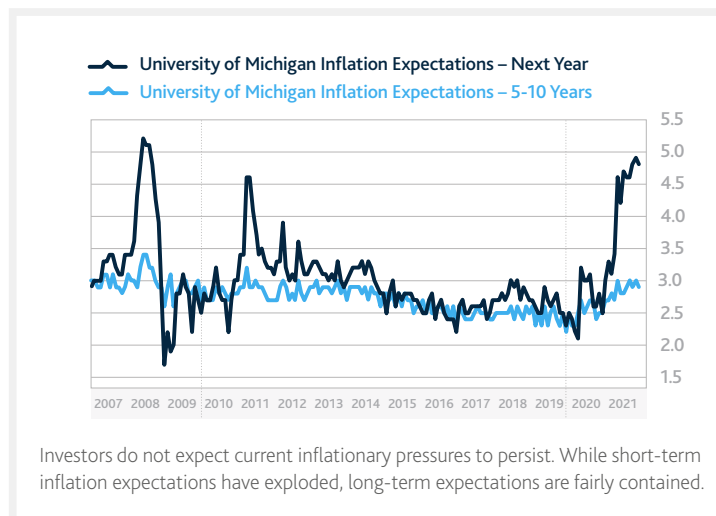
The U.S. economy is on track for another year of healthy growth. While President Biden's "Build Back Better" bill struggles to navigate Congress, the private sector is now driving growth, with consumer spending power enhanced by tighter labour market conditions and elevated savings amassed during the crisis. However, the latest Omicron surge is a source of risk that may dampen activity in early 2022 and put further strain on labor and input availability, potentially prolonging price pressures. Against this backdrop, Federal Reserve officials shifted their focus to the threat from inflation and are looking through temporary pandemic-induced economic risks. Indeed, December's Federal Reserve minutes stated that "it may become warranted to increase the federal funds rate sooner or at a faster pace" than committee members' earlier expectations. Treasury yields soared higher and equities sold off, with the technology sector assuming the brunt of the fall, with higher bond yields weighing disproportionately on growth stocks with the highest valuations.

INTERNATIONAL

The latest spike in Covid-19 cases weighed on economic activity at the end of 2021, albeit at different magnitudes. The Eurozone is showing particular vulnerability and is under increased strain, reflecting an earlier start to the Omicron-driven wave and the implementation of relatively more stringent restrictions versus the United States. The Markit purchasing manager indices (PMI) underscored this dichotomy. While the US Composite PMI eased slightly to 57.0 from 57.2 in December, the Eurozone Composite index fell more sharply to a nine-month low of 53.3 (from 55.4). As was the case with previous COVID waves, its economic impacts will most likely be temporary as the pandemic eventually subsides, while unrelenting central bank support should help to pave the way for an economic revival through 2022. On that note, the European Central Bank is widely expected to maintain a highly accommodative monetary policy stance, and is unlikely to raise interest rates until 2023 at the earliest.

EMERGING

China's economy showed more signs of slowing in late 2021, dragged down by a worsening property market slump and disruptions from repeated COVID outbreaks that have undercut consumer spending. While industrial output accelerated in November, retail sales growth weakened as people stayed home amid renewed virus outbreaks and the implementation of lockdowns in some areas. Meanwhile, property sector pressures continue to plague the economy, with both fixed asset investment and property investment slowing in November. The near-term outlook remains fraught with uncertainty, with the ongoing COVID spread coupled with the "zero-COVID" strategy likely leading to more economic disruptions early-on in the new year. However, the good news is that policymakers have taken note of the latest deterioration and have prioritized stabilizing the world's second largest economy in 2022 and implementing "proactive policies," with the People's Bank of China easing monetary policy and the Communist Party ordering more fiscal spending in the coming year.



Economic Scenarios



Main Scenario | Reflation

Probability **50%**

Our base case scenario calls for the global economy to grow at an above-trend pace through 2022, without the fear of an aggressive and destabilizing monetary policy tightening event. The global economic recovery lingers-on, even in the wake of sporadic virus outbreaks. While COVID dynamics weigh on activity in the near-term, the recovery ultimately resumes as the latest virus wave subsides, activity continues to normalize, and pent-up savings are unleashed. Meanwhile, both cyclical and secular forces keep inflation elevated, which prompts central banks to dial-back on their emergency-era support. However, despite inflation pressures proving more persistent than initially thought, inflation expectations remain generally well-anchored, which allows policymakers to proceed cautiously and pragmatically in normalizing monetary policy. Central bank asset purchases are scaled-down through 2022, and both the Federal Reserve and Bank of Canada begin the gradual rate normalization process given that their respective economies will be operating at or near full potential and output gaps will soon be closed. By contrast, central banks in Europe, Japan, and China decouple from this policy trajectory and maintain an extremely stimulative monetary policy stance over the coming year. Still, the North American 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 prove much stickier than previously assumed and de-anchors inflation expectations, with global economic prospects subsiding amid the fallout as a more aggressive tightening trajectory to combat runaway prices ends the cycle prematurely. Specifically, the near-term spike in pricing pressures proves more enduring than expected, and lasts long enough to become embedded in inflation expectations and ultimately triggers a wage-price spiral. 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 and consumers struggle to maintain their purchasing power. 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 deceleration in global growth to 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 | Recession

Probability **10%**

Another wildcard continues to be the emergence of highly-transmissible COVID-19 variants that risk derailing the global economic recovery. In this scenario, the pandemic proves more severe and persistent than anticipated given the predominance of variants in future contagion. The risk is that more variants emerge given that a substantial part of the world population remains unvaccinated and amid uncertainty about the effectiveness of existing vaccines in fighting these new variants. At the same time, vaccine hesitancy in some parts of the world creates a hurdle to reaching herd immunity and fully eradicating COVID-19. As it takes longer to gain control over the propagation of the virus, confinement and mitigation efforts from governments are reinstated and social distancing behaviours linger-on, while health fears prompt some reluctance from consumers and businesses to re-engage fully - which ultimately delays the return to normal and fuels a steep contraction in growth.

Forecasts for the Next 12-18 Months



SCENARIOS	DECEMBER 31, 2021	REFLATION	STAGFLATION	RECESSION
PROBABILITY		50%	40%	10%
GDP GROWTH 2022				
Global	4.40%	5.00%	3.50%	-4.50%
Canada	4.00%	4.50%	1.50%	-5.00%
U.S.	3.90%	4.25%	1.50%	-3.50%
GDP GROWTH 2023				
Global	3.60%	3.50%	2.50%	1.00%
Canada	2.90%	1.50%	1.00%	-1.00%
U.S.	2.50%	2.00%	1.00%	-1.00%
INFLATION (HEADLINE Y/Y)				
Canada	4.70%	3.50%	4.50%	0.50%
U.S.	6.80%	3.50%	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	1.43%	3.00%	3.50%	0.50%
U.S. Government	1.51%	3.00%	3.50%	0.50%
PROFIT ESTIMATES (12 MONTHS FORWARD)				
Canada	1348	1350	1150	850
U.S.	226	220	205	150
EAFE	160	155	145	90
EM	105	100	90	55
P/E (FORWARD 12 MONTHS)				
Canada	15.7X	17.0X	16.0X	15.0X
U.S.	21.1X	20.0X	19.5X	16.0X
EAFE	14.6X	15.0X	14.5X	14.0X
EM	11.8X	13.5X	13.0X	12.0X
CURRENCIES				
CAD/USD	0.79	0.87	0.85	0.65
EUR/USD	1.14	1.25	1.15	1.00
USD/JPY	115.08	100.00	105.00	110.00
COMMODITIES				
Oil (WTI, USD/barrel)	75.21	90.00	75.00	35.00
Gold (USD/oz)	1828.60	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	REFLATION	STAGFLATION	RECESSION
PROBABILITY	50%	40%	10%
TRADITIONAL INCOME			
Money Market	0.6%	1.0%	0.3%
Canadian Bonds	-6.8%	-9.0%	7.1%
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	8.1%	-13.3%	-39.9%
U.S. Equity Large Cap	-16.0%	-21.9%	-38.7%
International Equity	-9.5%	-16.2%	-34.3%
Emerging Market Equity	-0.3%	-11.6%	-34.8%
NON-TRADITIONAL CAPITAL APPRECIATION			
Private Equity	15.0%	12.0%	5.0%
Liquid Alternatives	7.0%	5.0%	0.0%

Current Strategy¹

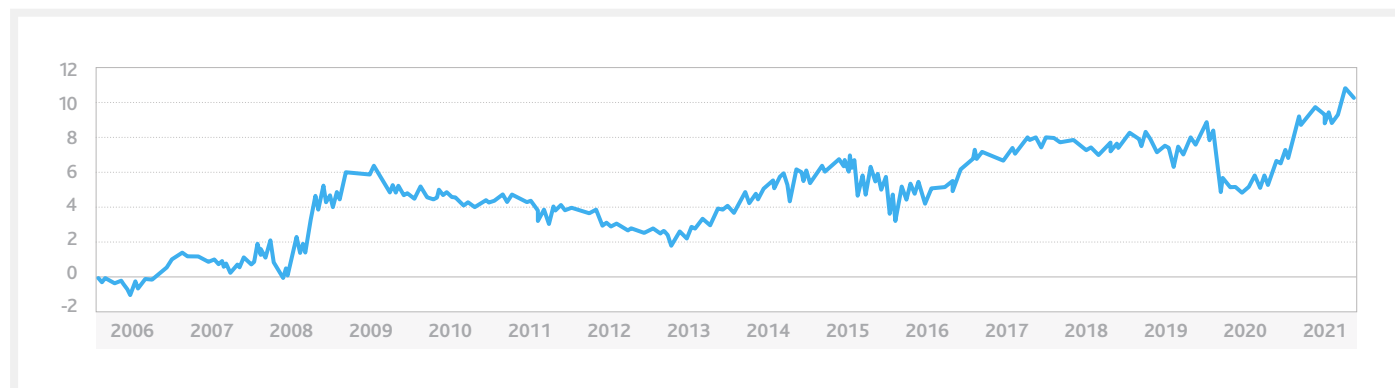
TRADITIONAL AND NON-TRADITIONAL PORTFOLIOS

	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%

Contact Us

North America			
MONTREAL Fiera Capital Corporation 1981 McGill College Avenue Suite 1500 Montreal, Quebec H3A 0H5 T 1 800 361-3499	TORONTO Fiera Capital Corporation 200 Bay Street, Suite 3800, South Tower Toronto, Ontario M5J 2J1 T 1 800 994-9002	CALGARY Fiera Capital Corporation 607 8th Avenue SW Suite 300 Calgary, Alberta T2P 0A7 T 403 699-9000	info@fieracapital.com fieracom
NEW YORK Fiera Capital Inc. 375 Park Avenue 8th Floor New York, New York 10152 T 212 300-1600	BOSTON Fiera Capital Inc. One Lewis Wharf 3rd Floor Boston, Massachusetts 02110 T 857 264-4900	DAYTON Fiera Capital Inc. 10050 Innovation Drive Suite 120 Dayton, Ohio 45342 T 937 847-9100	
Europe		Asia	
LONDON Fiera Capital (UK) Limited Queensberry House, 3 Old Burlington Street, 3rd Floor, London, United Kingdom W1S 3AE T +44 (0) 207 409 5500	FRANKFURT Fiera Capital (Germany) GmbH Walther-von-Cronberg-Platz 13 Frankfurt, Germany 60594 T +49 69 9202 0750	HONG KONG Fiera Capital (Asia) Hong Kong Limited Suite 3205, No. 9 Queen's Road Central, Hong Kong T 852-3713-4800	SINGAPORE Fiera Capital (Asia) Singapore Pte. Ltd. 6 Temasek Boulevard #38-03 Suntec Tower 4 Singapore 038986

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