# TACTICAL ASSET ALLOCATION COMMITTEE MONTHLY COMMENTARY

NOVEMBER 2016

FIERA CAPITAL

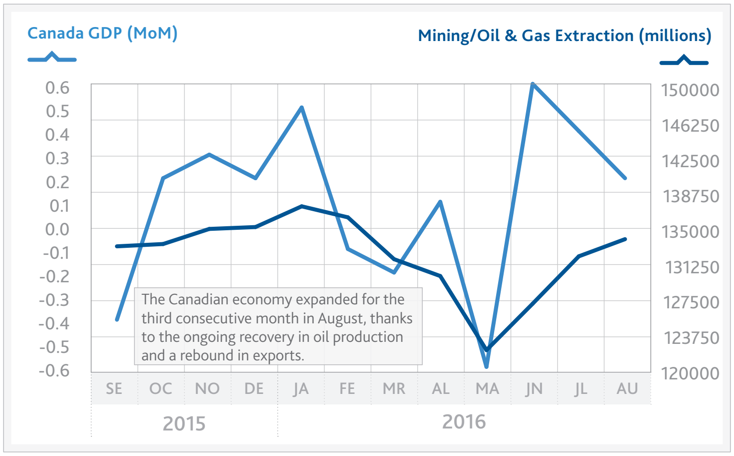
Financial market volatility resurfaced ahead of the highly anticipated US presidential election, as investors opted to look through some constructive economic results and instead fixated on uncertainty surrounding the final outcome. While a Clinton victory initially appeared to be a foregone conclusion, the late-October announcement that the FBI would be reopening an investigation into Ms. Clinton's email practices saw Mr. Trump gain some significant ground in the final week leading up to the election. However, the FBI upended the race once again and confirmed that they would forgo charges, which saw support for Clinton back in favor in the final days of the battle for the White House – though not enough to secure a victory. In the end, Donald Trump was elected the 45th President of the United States in a Republican sweep, defeating the largely favoured Hillary Clinton as well as a raft of pre-election polls.

Immediately following the surprise victory for Donald Trump on November 8th, financial market volatility returned to the fore, with a broad based retreat in risky assets and a corresponding flight to safety. However, market turbulence receded following Donald Trump's conciliatory acceptance speech and risky assets such as equities and economically-sensitive commodities (oil, copper) rebounded, while interest rates jumped higher in a bear-steepening move.

**As financial markets have resumed a sense of normalcy, we have had an opportunity to assess the implications of the Trump Presidency in greater detail and have come to the following conclusions:**

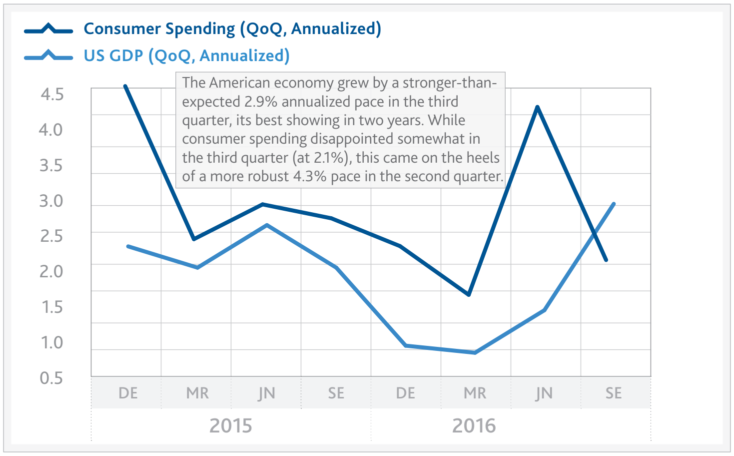
- **Aggressive campaigning rhetoric may overstate the actual implementation of policy proposals:**
  Donald Trump's tough and decisive campaign proposals are what won him the election. But most encouraging was his conciliatory acceptance speech, which effectively assuaged fears of derailing the global economy with radical, anti-growth policies. Instead, we expect Mr. Trump to pursue a more diluted version of his policy platform that would promote, not hinder growth.
- **Mr. Trump's longer-term policy proposals are generally positive for the global economy:**
  The full Republican sweep of the White House and both houses of Congress have increased the likelihood that his policy proposals actually get implemented, including tax reform, reduced regulation, and increased fiscal spending. Notably, Trump's push for fiscal stimulus comes at the precise time when an additional boost to growth is needed, with monetary policies largely reaching their limits. And with both the Senate and the House on his side, Trump will be able to move quickly on fiscal measures such as tax cuts and infrastructure spending. Furthermore, with the election now in the rear view mirror, investors can shift their focus back to the healthy fundamental backdrop at hand, including the improving global growth backdrop, rebounding corporate earnings, and still-accommodative central bank policies.
- **That being said, Trump's protectionist foreign policy proposals pose a risk to our outlook:**
  However, we have faith in the ability of Congress and the American system in general to limit any political and economic fallout, with the constitutional checks and balances in place. While Trump's protectionist mantra indeed diminishes the prospect for further trade deals, he is not likely to dismantle NAFTA - as doing so would be disruptive for many US corporations and would go against his pledges to bolster the US economy. At the same time, it's not a foregone conclusion that Trump has the full support of Congress on his controversial ideas.

Taken together, while near-term political uncertainties could prevail, our central scenario continues to call for a **Synchronized Global Expansion**, supported by the combination of rising global growth prospects, improving earnings expectations, and the ongoing thrust from accommodative monetary policies worldwide, which should bolster equity prices at the expense of fixed income over the coming year. Regionally speaking, we continue to have a preference for Canadian and Emerging Market equities, both of which stand to benefit in the environment of rising commodity prices, while a cautious Federal Reserve and the push for growth should bolster emerging market assets.



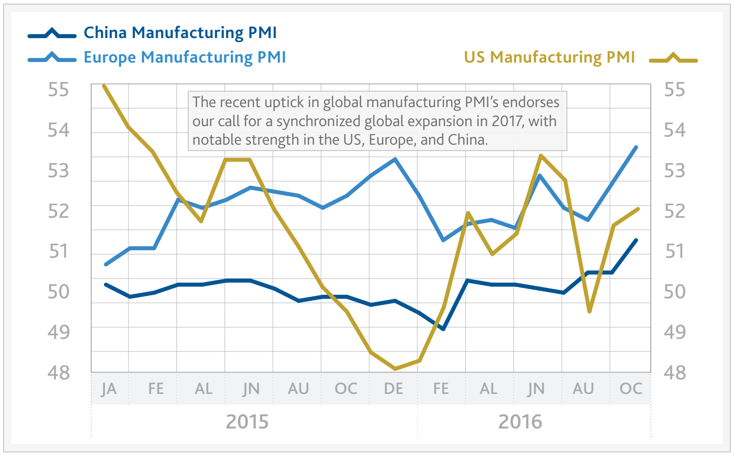

## CANADA

The Canadian economy expanded for a third consecutive month, with the goods-producing side of the economy leading the way. Oil, gas and mining production was the largest contributor, thanks to the resumption of oil sands activity in Alberta, while manufacturing production also climbed higher on the back of a cheaper loonie and stronger US demand for Canadian-made goods. In contrast, the consumption-oriented services sector stalled-out, suggesting that the much-needed rotation away from debt-fuelled consumer spending to the external sectors of the economy remains well underway. Despite the mild economic improvement, the Bank of Canada adopted an increasingly dovish stance and downgraded both its growth and inflation outlook, while stating that the Governing Council had "actively discussed" cutting interest rates to prop up the economy.




## USA

After an uninspiring first half, the US economy posted an impressive advance in the third quarter, keeping the Federal Reserve on track for a year-end rate hike. While the consumer continues to make a decent contribution to growth amid solid employment and steady income gains, it was encouraging to see that exports also added considerably to value during the quarter. While some of that surge in exports was indeed a result of a one-off surge in soybean shipments, the general rebound is nonetheless a sign that the weight of previous US dollar strength has receded somewhat. Taken together, the recent string of constructive economic results in the US should provide the Federal Reserve with the evidence they need to lift policy rates later this year.




## INTERNATIONAL

Looking abroad, the economic outlook appears to be on the path to improvement, thanks to the ample monetary stimulus currently in place. In Europe and the UK, economic results have been exceeding expectations across the board, implying ongoing resilience as we head into the fourth quarter. Meanwhile, the recent string of economic data in China has reinforced the ongoing theme of stabilization, with the official manufacturing gauge rising to a two-year high, while the non-manufacturing gauge is also pointing towards an expansion in the consumer sector. In contrast, Japan continues its struggle to gain momentum in the wake of the stronger yen and fragile domestic demand, with both industrial production and retail sales falling short of expectations last month.

Our current scenarios are for a synchronized global expansion (60%), which is a continuation of the current environment that benefits equities, political instability (20%), which would be negative for equities and positive for bonds, emerging market instability (10%) led by emerging market disequilibrium that would introduce significant volatility, and finally, global economic stagnation (10%) which would be negative for equities and positive for bonds.

## MAIN SCENARIO
### SYNCHRONIZED GLOBAL EXPANSION

**PROBABILITY 60%**

The global growth backdrop carries on, led by the US economy, where an improving consumer backdrop remains at odds with a manufacturing sector that's muddling its way through. However, the Federal Reserve proceeds with caution in raising rates, so as not to derail the economic progress made in the US. Meanwhile, the adjustment to low oil prices in Canada remains underway, as the economy thrives on the combination of resurgent US demand, a competitive Canadian dollar, and newly-announced fiscal stimulus measures. While the Eurozone continues to benefit in the environment of highly stimulative policies, monetary and fiscal support in Japan ultimately prove successful in reflating the economy, while the Chinese economy demonstrates encouraging signs of firming in response to past monetary and fiscal support. This lucrative combination of improving, albeit non-inflationary global growth and the ongoing thrust from increasingly accommodative monetary policies worldwide should place a floor under risky assets and global equity markets alike, while the combination of stronger demand for crude and a reduction in excess supplies should bolster oil prices over the next 12 to 18 months.

## SCENARIO 2
### POLITICAL INSTABILITY

**PROBABILITY 20%**

The volatile election cycles in both the United States and Europe and the corresponding tilt towards populism and protectionist policies could bring about tremendous political upheaval, disrupting the global economy and financial markets alike. Under this scenario, the surprise victory for Donald Trump in the US elections brings about heightened uncertainty due to his drastic and unconventional policy proposals, including protectionist policies with a profound aversion to trade agreements that would create massive headwinds for global trade. Meanwhile, a rise in euro-skepticism and anti-establishment movements risks throwing Europe into political disarray at the same inopportune time that the economy is struggling to gain momentum, particularly as Italy, France, and Germany hold referendums and elections in the coming year, while the unknown consequences of Brexit negotiations linger on with UK PM May taking a harder line on the UK departure from the EU.

## SCENARIO 3
### EMERGING MARKET INSTABILITY

**PROBABILITY 10%**

Emerging market economies are most vulnerable to a faster pace of interest rate increases in the US and a corresponding resurgence in the US dollar. The sharp decline in foreign direct investment, repayment of US-denominated debt, and potential capital outflows could result in major contagion and a corresponding flight to quality trade, further exacerbating USD strength and a broad based tightening of financial market conditions. Furthermore, excessive and rising debt burdens in China leave the economy vulnerable at a time when growth is already slowing, rekindling fears of a hard landing in the world's second largest economy.

## SCENARIO 4
### GLOBAL ECONOMIC STAGNATION

**PROBABILITY 10%**

After eight years in recovery-mode, the global economy fails to regain momentum and runs out of steam, as secular forces such as an aging population, weaker labor force growth, and lower productivity temper growth prospects worldwide. Furthermore, the massive amounts of monetary stimulus already in place prove unsuccessful in bolstering growth as a broad-based deterioration in confidence offsets the environment of accommodative policy, leaving policymakers with little ammunition to shelter the economy from the storm.

FORECASTS FOR THE NEXT 12 MONTHS

| SCENARIOS | OCTOBER 31, 2016 | SYNCHRONIZED GLOBAL EXPANSION | POLITICAL INSTABILITY | EMERGING MARKET INSTABILITY | GLOBAL ECONOMIC STAGNATION |
|---|---|---|---|---|---|
| PROBABILITY | | 60% | 20% | 10% | 10% |
| GDP GROWTH (Y/Y) | | | | | |
| Global | 3.10% | 3.00% | 2.25% | 2.00% | 2.00% |
| Canada | 1.30% | 2.50% | 1.00% | 0.50% | 0.50% |
| U.S. | 1.50% | 2.50% | 1.00% | 1.50% | 1.00% |
| INFLATION (HEADLINE Y/Y) | | | | | |
| Canada | 1.30% | 2.20% | 1.30% | 1.00% | 1.00% |
| U.S. | 1.50% | 2.00% | 1.00% | 1.50% | 1.00% |
| SHORT-TERM RATES | | | | | |
| Bank of Canada | 0.50% | 0.50% | 0.25% | 0.25% | 0.25% |
| Federal Reserve | 0.50% | 1.00% | 0.25% | 0.25% | 0.25% |
| 10-YEAR RATES | | | | | |
| Canada Government | 1.20% | 1.90% | 0.90% | 0.80% | 0.90% |
| US Government | 1.83% | 2.00% | 1.25% | 1.20% | 1.25% |
| PROFIT GROWTH (12 MONTHS FORWARD) | | | | | |
| Canada | 19.5% | 26.6% | -4.2% | -7.6% | -4.2% |
| U.S. | 10.4% | 12.4% | -6.3% | -10.6% | -8.0% |
| EAFE | 20.5% | 27.3% | -4.5% | -15.1% | -9.8% |
| EM | 16.5% | 31.6% | -17.8% | -26.0% | -21.1% |
| P/E (FORWARD 12 MONTHS) | | | | | |
| Canada | 16.9X | 18.0X | 16.0X | 16.0X | 15.0X |
| U.S. | 16.4X | 18.0X | 16.0X | 15.0X | 14.0X |
| EAFE | 14.7X | 16.0X | 14.0X | 14.0X | 13.0X |
| EM | 12.8X | 13.5X | 12.0X | 12.0X | 12.0X |
| CURRENCIES | | | | | |
| CAD/USD | 0.75 | 0.82 | 0.70 | 0.65 | 0.70 |
| EUR/USD | 1.10 | 1.12 | 0.95 | 1.10 | 1.15 |
| USD/JPY | 104.82 | 115.00 | 100.00 | 90.00 | 90.00 |
| COMMODITIES | | | | | |
| Oil (WTI, USD/barrel) | 46.86 | 65.00 | 40.00 | 30.00 | 45.00 |

## MATRIX OF EXPECTED RETURNS

| SCENARIOS | SYNCHRONIZED GLOBAL EXPANSION | POLITICAL INSTABILITY | EMERGING MARKET INSTABILITY | GLOBAL ECONOMIC STAGNATION |
|---|---|---|---|---|
| PROBABILITY | 60% | 20% | 10% | 10% |
| Money Market | 0.5% | 0.4% | 0.4% | 0.4% |
| Canadian Bonds | -1.5% | 3.9% | 4.6% | 4.4% |
| Canadian Equity | 12.6% | -24.3% | -27.0% | -29.0% |
| U.S. Equity | 1.6% | -11.8% | -15.0% | -24.2% |
| International Equity | 4.8% | -19.4% | -22.9% | -29.3% |
| Emerging Market Equity | 8.5% | -29.4% | -31.5% | -32.2% |

## CURRENT STRATEGY [1]

| | MINIMUM | BENCHMARK | MAXIMUM | STRATEGY | ALLOCATION | RELATIVE | OCTOBER 31 CHANGES |
|---|---|---|---|---|---|---|---|
| Money Market | 0.0% | 5.0% | 25.0% | Neutral | 5.0% | 0.0% | Decreased by 5.0% |
| Canadian Bonds | 20.0% | 40.0% | 60.0% | Underweight | 20.0% | -20.0% | No change |
| Canadian Equity | 20.0% | 25.0% | 45.0% | Overweight | 37.5% | +12.5% | No change |
| U.S. Equity | 3.0% | 13.0% | 23.0% | Neutral | 13.0% | 0.0% | No change |
| International Equity | 2.0% | 12.0% | 22.0% | Neutral | 12.0% | 0.0% | No change |
| Emerging Markets Equity | 0.0% | 5.0% | 15.0% | Overweight | 12.5% | +7.5% | Increased by 5.0% |

[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.

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EVOLUTION OF STRATEGY [1]

| | MONEY MARKET | CANADIAN BONDS | CANADIAN EQUITY | U.S. EQUITY | INTERNATIONAL EQUITY | EMERGING MARKETS EQUITY |
|---|---|---|---|---|---|---|
| July 4, 2011 | +10.0% | -15.0% | +5.0% | 0.0% | 0.0% | 0.0% |
| August 10, 2011 | +5.0% | -15.0% | +5.0% | +5.0% | 0.0% | 0.0% |
| October 5, 2011 | +7.0% | -15.0% | +8.0% | 0.0% | 0.0% | 0.0% |
| October 12, 2011 | +6.0% | -10.0% | +4.0% | 0.0% | 0.0% | 0.0% |
| November 11, 2011 | +5.0% | 0.0% | 0.0% | 0.0% | -5.0% | 0.0% |
| December 7, 2011 | 0.0% | 0.0% | +5.0% | 0.0% | -5.0% | 0.0% |
| April 20, 2012 | +15.0% | -20.0% | +10.0% | 0.0% | -5.0% | 0.0% |
| July 31, 2012 | +20.0% | -15.0% | 0.0% | 0.0% | -5.0% | 0.0% |
| November 9, 2012 | +10.0% | -15.0% | +10.0% | 0.0% | -5.0% | 0.0% |
| February 19, 2013 | +5.0% | -15.0% | +10.0% | 0.0% | 0.0% | 0.0% |
| August 6, 2013 | 0.0% | -15.0% | +10.0% | +5.0% | 0.0% | 0.0% |
| December 3, 2013 | +10.0% | -15.0% | +5.0% | 0.0% | 0.0% | 0.0% |
| February 5, 2014 | 0.0% | -15.0% | +10.0% | +10.0% | -5.0% | 0.0% |
| October 14, 2014 | 0.0% | -20.0% | +5.0% | +10.0% | +5.0% | 0.0% |
| November 14, 2014 | +10.0% | -20.0% | +2.5% | +2.5% | +5.0% | 0.0% |
| July 13, 2015 | 0.0% | -20.0% | +7.0% | +4.0% | +9.0% | 0.0% |
| October 19, 2015 | 0.0% | -20.0% | +11.0% | +0.0% | +9.0% | 0.0% |
| June 24, 2016 | +9.0% | -20.0% | +11.0% | +0.0% | +0.0% | 0.0% |
| July 12, 2016 | 0.0% | -20.0% | +15.0% | +0.0% | +0.0% | +5.0% |
| July 27, 2016 | +5.0% | -20.0% | +12.5% | +0.0% | +0.0% | +2.5% |
| October 31, 2016 | 0.0% | -20.0% | +12.5% | 0.0% | 0.0% | +7.5% |

[1] Based on a 100 basis point value added objective.

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## Client Services


| | | |
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