TACTICAL ASSET ALLOCATION COMMITTEE MONTHLY COMMENTARY

AUGUST 2017

FIERA CAPITAL

Despite ongoing political brinkmanship in Washington and the failed efforts by Senate Republicans to pass health care legislation, global equity markets remained resilient in July. Fading hopes for any meaningful stimulus in the US has not been enough to derail the global equity upswing, with investors opting to focus on the favourable global growth backdrop and the corresponding acceleration in corporate earnings, while rising commodity prices have also fueled risk appetite and added to confidence that the world economy is gathering momentum.

FINANCIAL MARKET DASHBOARD

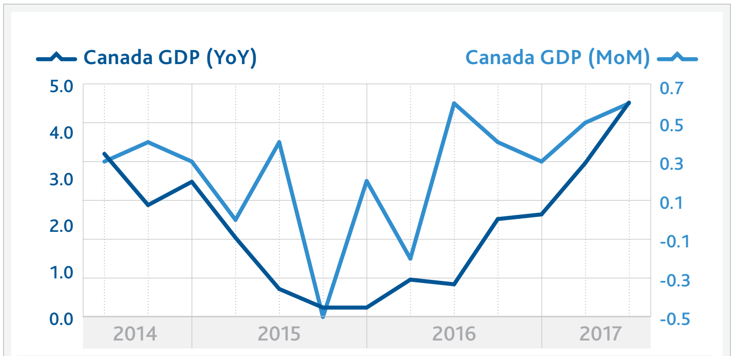
	JULY 31, 2017	JULY	YTD	1 YEAR
EQUITY MARKETS		% PRICE CHANGE (LC)		
S&P 500	2,470	1.93%	10.34%	13.65%
S&P/TSX	15,144	-0.25%	-0.94%	3.85%
MSCI EAFE	1,937	2.85%	15.02%	14.67%
MSCI EM	1,066	5.48%	23.65%	22.07%
FIXED INCOME (%)		BASIS POINT CHANGE		
US 10 Year Bond Yield	2.29	-1.0	-15.0	84.1
US 2 Year Bond Yield	1.35	-3.3	16.1	69.4
CA 10 Year Bond Yield	2.06	29.5	33.6	103.0
CA 2 Year Bond Yield	1.32	21.3	56.9	77.6
CURRENCIES		% PRICE CHANGE		
CAD/USD	0.80	3.89%	7.70%	4.53%
EUR/USD	1.18	3.64%	12.60%	5.98%
USD/JPY	110.26	-1.90%	-5.73%	8.03%
COMMODITIES		% PRICE CHANGE		
WTI Oil (USD/bbl)	50.17	8.97%	-6.61%	20.60%
Copper (USD/pound)	2.89	7.13%	15.41%	30.16%
Gold (USD/oz)	1,266.60	1.96%	9.98%	-6.11%

In July, the US equity market proved immune to political stalemate and breached new highs amid solid earnings results and a weaker greenback, while the Canadian equity market continued to lag its global peers, even despite the resurgence in crude prices. Looking abroad, European equities ended the month virtually unchanged. After rising initially, European stocks pulled back in late July on fears that the surge in the euro would dampen earnings prospects. Finally, emerging market equities were buoyed by the solid macro backdrop in China and the Fed's gradual approach to policy normalization, both of which have increased the appeal of risky assets.

In fixed income markets, converging central bank policy stances have seen rate differentials between the US and Canada narrow substantially. In the US, bond yields declined amid fading prospects for a US fiscal boost and as investors interpreted the Federal Reserve July statement as dovish in general, focussing on the Fed's cautious inflation outlook even after reiterating their intension to begin unwinding the balance sheet "relatively soon". In contrast, Canadian bond yields broke out to the upside after the Bank of Canada made good on its shift to a more hawkish stance and raised interest rates for the first time since 2010, while persistent strength in the economy has bolstered the case for another rate hike later this year.

The theme of US dollar weakness prevailed as investors tempered their expectations for future rate hikes, while political impasse in the US also weighed on the greenback. The Canadian dollar soared higher as economic resilience boosted expectations for another rate hike this year, while the revival in crude prices also lent some support. Similarly, the euro extended gains after the ECB laid the groundwork for an eventual adjustment to its extraordinary policy measures in response to the improved economic outlook in the euro area.

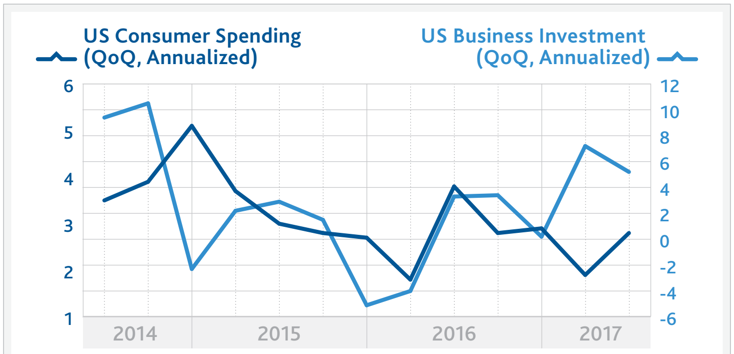
In commodity markets, oil prices rebounded following reports of a massive drawdown in US stockpiles and as Saudi Arabia pledged to restrict oil exports, raising speculation that the global supply glut may finally be easing. Gold advanced as investors weighed the outlook for the US dollar and interest rates after the Fed highlighted its concern about the subdued inflation backdrop, while copper rallied to a two-year high amid fresh optimism on the global economy, particularly in China.



The Canadian economy expanded by 0.6% in May, the 7th consecutive monthly gain. These robust results take the annual rate to 4.6%, marking the fastest pace of growth since 2000.

CANADA

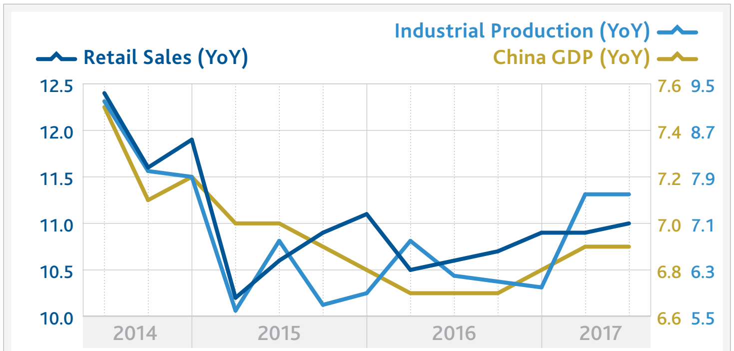
The Canadian economy posted an impressive and broad based advance in May, while retail, wholesale, and manufacturing sales all exceeded expectations in June, suggesting that the second quarter wrapped up with some decent momentum. Meanwhile, underlying pricing pressures appear to be resurfacing (albeit slowly), with two out of three of the Bank of Canada's preferred measures of core inflation increasing in June. As a result, the Bank of Canada raised interest rates for the first time since 2010 in July, while ongoing economic gains are likely to solidify expectations for one more rate hike later this year, particularly as emergency level interest rates are no longer warranted at this time.



After a soft start to the year, the US economy bounced back in the second quarter, with both the consumer and businesses adding positively to growth – confirming that the slowdown at the start of 2017 was indeed temporary in nature.

USA

The second quarter US GDP results underscore the resilience of the world's largest economy after some temporary softness earlier this year. The US economy grew at a 2.6% annualized pace, driven largely by a rebound in consumer spending and business investment. However, the Federal Reserve's preferred price index (excluding food and energy) moved further away from its 2% target, rising at a disappointing 0.9% annualized rate. That being said, the Fed appears fairly undeterred by the soft inflation backdrop and remains committed to its plans to begin unwinding the $4.5 trillion balance sheet this year, while also proceeding with a slow gradual and predictable path to rate normalization.



The Chinese economy exceeded expectations during the first half of 2017 and monthly activity data is pointing towards a pickup in momentum at the end of the second quarter, allowing policymakers the leeway to reign-in credit expansion and reduce financial risks.

INTERNATIONAL

The Eurozone is growing at an above-trend pace and disinflationary headwinds are abating, justifying the ECB's shift towards a more neutral stance. Meanwhile in the UK, the combination of soaring inflation and ongoing Brexit uncertainties are beginning to take a toll on the economy. And while the Japanese economy is indeed exhibiting some renewed signs of life, elusive pricing pressures are likely to keep the Bank of Japan on the sidelines for now. Finally, China's economy ended the first half with some solid momentum, with GDP growth coming in comfortably above the government's targeted range, while retail sales and industrial production are growing at the fastest pace since 2014.

Our current scenarios are for a synchronized global expansion (65%), which is a continuation of the current environment that benefits equities, political instability (15%), 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 65%

The global economy continues to expand in a synchronous manner, with all major regions contributing to the advance. The US expansion lingers on, thanks to widespread improvements across both the consumer and manufacturing sectors of the economy, while political developments have an overall neutral impact. Meanwhile, with the worst of the oil shock behind us, the Canadian economy thrives on the combination of resurgent US demand, a competitive Canadian dollar, and fiscal support. Finally, while policymakers in Europe and Japan ultimately prove successful in reflating growth, emerging market economies prosper in the environment of improving global demand, ample liquidity, and rising commodity prices. Taken together, the lucrative combination of synchronized global growth and a revival in commodity prices should bolster inflation expectations across the world, though not to levels that would threaten the status of the economic recovery. This reflationary backdrop bodes well for equities and commodities (ex-gold) at the expense of fixed income and the US dollar.

SCENARIO 2
POLITICAL INSTABILITY

PROBABILITY 15%

Recent trends towards populism and protectionism could bring about tremendous political upheaval and a corresponding crisis in confidence, disrupting the global economy and financial markets alike. Starting in Europe, while anti-euro parties were unable to gain significant ground in France and the Netherlands, the potential for a rise in euro skeptic movements in Italy (where support for the euro remains low) and possibly Spain risks throwing the region into political disarray at the same inopportune time when the fallout of Brexit remains highly uncertain. In the US, the potential for ongoing gridlock threatens to delay President Trump's pro-growth agenda, while ongoing pressure to make good on his campaign promises ahead of the midterm elections could see the President's rhetoric on protectionism translate into action, particularly due to his ability to act unilaterally on the foreign policy front. Finally in China, the leadership change at the National Party Congress this fall could pose considerable risks to both economic growth and financial stability if policymakers retain power and enact more assertive, wide spread financial sector reforms to crack down on excesses.

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. Finally, anti-trade rhetoric in the US becomes a reality, resulting in tariffs being imposed on emerging market economies such as China and Mexico, with retaliatory measures igniting a global trade war.

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.

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FORECASTS FOR THE NEXT 12 MONTHS

SCENARIOS	JULY 31, 2017	SYNCHRONIZED GLOBAL EXPANSION	POLITICAL INSTABILITY	EMERGING MARKET INSTABILITY	GLOBAL ECONOMIC STAGNATION
PROBABILITY		65%	15%	10%	10%
GDP GROWTH (Y/Y)					
Global	3.50%	3.75%	3.00%	2.00%	2.00%
Canada	4.60%	2.75%	1.00%	0.50%	0.50%
U.S.	2.10%	3.00%	1.00%	1.50%	1.00%
INFLATION (HEADLINE Y/Y)					
Canada	1.00%	2.40%	1.75%	1.00%	1.00%
U.S.	1.60%	2.40%	2.00%	1.50%	1.00%
SHORT-TERM RATES					
Bank of Canada	0.75%	1.25%	0.75%	0.50%	0.50%
Federal Reserve	1.25%	2.00%	1.25%	0.75%	0.50%
10-YEAR RATES					
Canada Government	2.06%	2.50%	1.70%	1.40%	1.50%
US Government	2.29%	3.00%	1.40%	1.20%	1.25%
PROFIT GROWTH (12 MONTHS FORWARD)					
Canada	9.3%	18.7%	-8.7%	-11.8%	-8.7%
U.S.	10.8%	13.5%	-8.7%	-8.7%	-0.8%
EAFE	14.4%	16.0%	-10.7%	-10.7%	-1.8%
EM	22.3%	27.3%	-10.1%	-17.6%	-10.1%
P/E (FORWARD 12 MONTHS)					
Canada	16.7X	17.0X	16.0X	16.0X	17.0X
U.S.	17.8X	18.0X	16.0X	16.0X	16.0X
EAFE	15.1X	15.5X	14.0X	14.0X	14.0X
EM	13.1X	13.5X	13.0X	12.0X	13.0X
CURRENCIES					
CAD/USD	0.80	0.80	0.70	0.65	0.70
EUR/USD	1.18	1.20	0.95	1.10	1.15
USD/JPY	110.26	125.00	110.00	100.00	90.00
COMMODITIES					
Oil (WTI, USD/barrel)	50.17	65.00	45.00	40.00	45.00

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MATRIX OF EXPECTED RETURNS

SCENARIOS	SYNCHRONIZED GLOBAL EXPANSION	POLITICAL INSTABILITY	EMERGING MARKET INSTABILITY	GLOBAL ECONOMIC STAGNATION
PROBABILITY	65%	15%	10%	10%
Money Market	1.0%	0.8%	0.6%	0.6%
Canadian Bonds	-0.4%	5.2%	7.0%	6.3%
Canadian Equity	9.5%	-20.8%	-23.4%	-15.8%
U.S. Equity	4.4%	-14.7%	-8.2%	-7.3%
International Equity	4.2%	-17.2%	-10.9%	-9.0%
Emerging Market Equity	7.8%	-16.2%	-23.7%	-16.2%

CURRENT STRATEGY [1]

	MINIMUM	BENCHMARK	MAXIMUM	STRATEGY	ALLOCATION	RELATIVE	APRIL 5 CHANGES
Money Market	0.0%	5.0%	25.0%	Overweight	10.0%	+5.0%	Increased by 5.0 %
Canadian Bonds	20.0%	40.0%	60.0%	Underweight	25.0%	-15.0%	Increased by 5.0 %
Canadian Equity	20.0%	25.0%	45.0%	Overweight	32.5%	+7.5%	Decreased by 5.0%
U.S. Equity	3.0%	13.0%	23.0%	Neutral	13.0%	0.0%	No change
International Equity	2.0%	12.0%	22.0%	Underweight	7.0%	-5.0%	Decreased by 5.0%
Emerging Markets Equity	0.0%	5.0%	15.0%	Overweight	12.5%	+7.5%	No change

[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
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%
April 5, 2017	+5.0%	-15.0%	+7.5%	0.0%	-5.0%	+7.5%

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

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