TACTICAL ASSET ALLOCATION COMMITTEE MONTHLY COMMENTARY

OCTOBER 2017

FIERA CAPITAL

In September, the reflationary trade regained some traction amid ongoing signs of global economic resilience. Furthermore, markets breathed a sigh of relief after tensions between the US and North Korea receded somewhat, while President Trump put fiscal expansion back on the table after unveiling his long-awaited proposal for tax reform. In the end, risk appetite prevailed and equity markets outperformed their safe haven counterparts during the month.

FINANCIAL MARKET DASHBOARD

	SEPT. 29, 2017	SEPT.	YTD	1 YEAR
EQUITY MARKETS		% PRICE CHANGE (LC)		
S&P 500	2,519	1.93%	12.53%	16.19%
S&P/TSX	15,635	2.78%	2.27%	6.17%
MSCI EAFE	1,974	2.23%	17.21%	15.99%
MSCI EM	1,082	-0.55%	25.45%	19.73%
FIXED INCOME (%)		BASIS POINT CHANGE		
US 10 Year Bond Yield	2.33	21.7	-11.1	73.9
US 2 Year Bond Yield	1.48	15.7	29.4	72.1
CA 10 Year Bond Yield	2.10	25.0	37.8	110.3
CA 2 Year Bond Yield	1.52	24.2	77.0	99.6
CURRENCIES		% PRICE CHANGE		
CAD/USD	0.80	0.10%	7.77%	5.26%
EUR/USD	1.18	-0.81%	12.33%	5.15%
USD/JPY	112.51	2.30%	-3.80%	11.01%
COMMODITIES		% PRICE CHANGE		
WTI Oil (USD/bbl)	51.67	9.40%	-3.82%	7.11%
Copper (USD/pound)	2.95	-4.03%	17.94%	33.68%
Gold (USD/oz)	1,281.50	-2.81%	11.27%	-2.42%

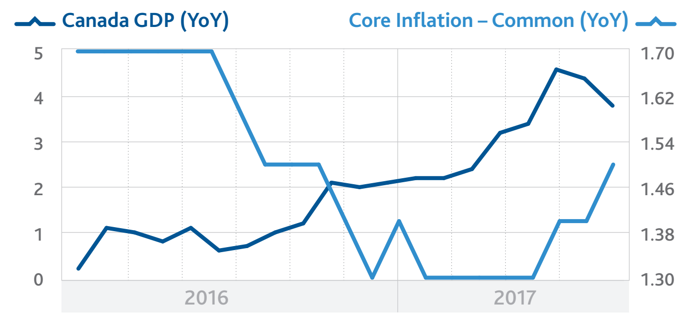
The synchronous global expansion remained a key support for equity markets in September. US equities breached new record highs amid renewed optimism on the health of the US economy and as investors weighed the prospect for corporate tax cuts. Meanwhile, the Canadian equity market staged an impressive comeback and led the performance charge, owing to the sharp rebound in crude prices and as rising interest rates bolstered the financial sector – bringing the S&P/TSX back into positive territory for the year. Looking abroad, international stocks remained well-supported by the stronger economic and earnings backdrop in both Europe and Japan, while emerging market equities lost some of their lustre as expectations for higher interest rates and corresponding US dollar strength reduced their appeal.

The tone in fixed income markets was consistent with the risk-on sentiment in September, with government bond yields rising across the world. US bond yields were pressured higher as the resurgence in crude prices and speculation for tax cuts bolstered inflation expectations, while Chair Yellen defied market expectations and signalled the Federal Reserve's intension to raise interest rates once again this year. Canadian bond yields also backed-up after the Bank of Canada surprised the market and raised interest rates for a second time in September, though reversed course somewhat after senior Bank of Canada officials downplayed the prospect of further tightening in the near-term.

The US dollar rebounded after Chair Yellen reiterated that the Fed remains on track to raise interest rates later this year, while President Trump's proposal for tax cuts also lent support. Meanwhile, after surging higher through most of September, the Canadian dollar lost some steam and fell back towards 80 US cents after policymakers tempered their hawkish stance, emphasizing that the Bank of Canada will proceed cautiously in order to gauge the impact of higher borrowing costs and a stronger loonie on the economy.

Finally in commodity markets, oil prices staged an impressive rebound in September after a surprise decline in US stockpiles and as the International Energy Agency raised their forecast for global demand, while US refinery demand also made a swift comeback after the hurricane damage last month. In contrast, gold prices struggled after some hawkish chatter at the Fed and renewed optimism on the US political front bolstered the greenback and sent bullion prices tumbling lower.

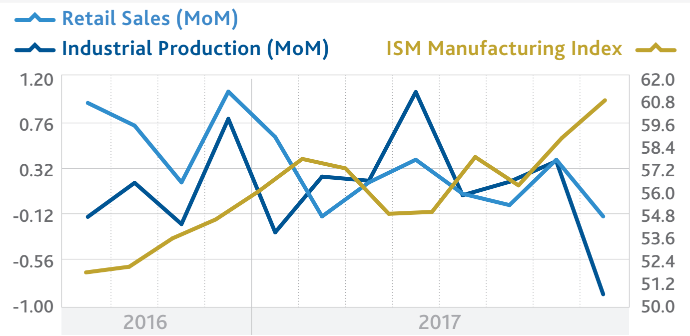
PW



The robust Canadian growth backdrop and renewed signs of life on the inflation front prompted the Bank of Canada to raise interest rates twice during the third quarter.

CANADA

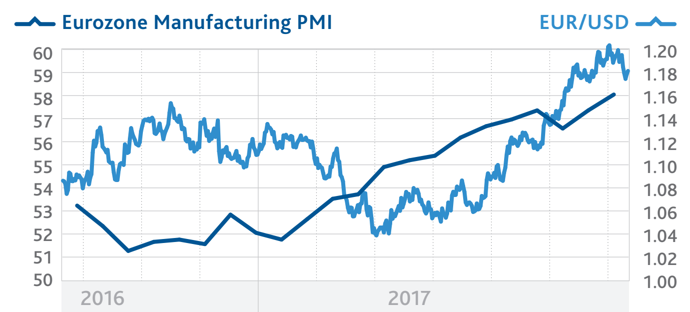
After recording some of the fastest growth in decades, the Canadian economy cooled somewhat at the beginning of the third quarter. Specifically, gross domestic product came in virtually unchanged in July after eight consecutive months of gains. The goods-producing sector staged a pullback owing to a decline in energy production, which outweighed positive results in the services-producing industries, which posted their 16th consecutive monthly gain. While the above-trend growth through 2017 has helped to absorb excess capacity and justified the Bank of Canada's removal of emergency policy measures, the path forward is likely to be gradual, with the central bank likely taking a brief pause to assess how the economy reacts to higher interest rates and a stronger loonie.



While the fallout from hurricane activity created some distortions in August's economic results, the jump in September's manufacturing PMI suggests that the underlying economy remains on solid ground – while rebuilding efforts should regenerate growth in the fourth quarter.

USA

The US economy remains on solid ground. Both consumer spending and business investment continue to drive the acceleration, while exports have also contributed meaningfully on the back of a softer greenback and firming global demand. While third quarter growth is likely to moderate amid weather-related distortions, this should make way for a fourth quarter rebound as rebuilding efforts commence, particularly as underlying momentum remains strong enough to absorb the downdraft. As a result, the Federal Reserve is likely to look through any storm-related economic weakness and has instead reinstated its commitment to one more rate hike this year, followed by three more in 2018.



The stronger euro has not been enough to derail the economic revival in Europe. The manufacturing PMI rose to a six-year high in September, with broad based gains across all major European countries.

INTERNATIONAL

The synchronous global expansion lingers on, which has justified the constructive shift in central bank rhetoric. The Eurozone economic recovery has become increasingly self-sustaining, with both business and consumer confidence near decade-highs - a sign that recent strength in the euro has yet to undermine growth. Similarly in Japan, domestic demand has been resilient in the wake of a stronger labour market, while business sentiment remains supported by the weaker yen and stronger global demand. Finally, the Chinese economy is holding up surprisingly well heading into the fourth quarter, with broad based strength in both the manufacturing and services sectors of the economy.

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	SEPTEMBER 29, 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	3.80%	2.75%	1.00%	0.50%	0.50%
U.S.	2.20%	3.00%	1.00%	1.50%	1.00%
INFLATION (HEADLINE Y/Y)					
Canada	1.40%	2.40%	1.75%	1.00%	1.00%
U.S.	1.90%	2.40%	2.00%	1.50%	1.00%
SHORT-TERM RATES					
Bank of Canada	1.00%	1.50%	1.00%	0.50%	0.50%
Federal Reserve	1.25%	2.00%	1.25%	0.75%	0.50%
10-YEAR RATES					
Canada Government	2.10%	2.65%	1.70%	1.40%	1.50%
US Government	2.33%	3.25%	1.40%	1.20%	1.25%
PROFIT GROWTH (12 MONTHS FORWARD)					
Canada	16.7%	19.8%	-13.2%	-16.2%	-13.2%
U.S.	10.8%	17.2%	-14.1%	-14.1%	-6.2%
EAFE	14.4%	13.8%	-16.8%	-16.8%	-8.1%
EM	22.5%	33.7%	-17.2%	-24.4%	-17.2%
P/E (FORWARD 12 MONTHS)					
Canada	16.0X	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	12.8X	13.5X	13.0X	12.0X	13.0X
CURRENCIES					
CAD/USD	0.80	0.85	0.70	0.65	0.70
EUR/USD	1.18	1.20	0.95	1.10	1.15
USD/JPY	112.51	125.00	110.00	100.00	90.00
COMMODITIES					
Oil (WTI, USD/barrel)	51.67	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%
TRADITIONAL INCOME (BONDS)	**-0.7%**	**4.7%**	**6.0%**	**5.5%**
Money Market	1.3%	1.0%	0.8%	0.8%
Canadian Bonds	-1.2%	5.6%	7.4%	6.7%
NON-TRADITIONAL INCOME	**7.0%**	**5.5%**	**5.0%**	**5.3%**
TRADITIONAL CAPITAL APPRECIATION (STOCKS)	**3.6%**	**-22.9%**	**-21.9%**	**-17.5%**
Canadian Equity	8.7%	-25.8%	-28.4%	-21.2%
U.S. Equity	1.1%	-20.0%	-13.8%	-12.7%
International Equity	-3.7%	-22.8%	-16.9%	-14.7%
Emerging Market Equity	8.3%	-21.5%	-28.8%	-21.5%
NON-TRADITIONAL CAPITAL APPRECIATION	**7.0%**	**4.0%**	**5.5%**	**5.0%**

CURRENT STRATEGY[1]

	MINIMUM	BENCHMARK	MAXIMUM	STRATEGY	ALLOCATION	RELATIVE	MARCH 17 CHANGES
TRADITIONAL INCOME (BONDS)	**10.0%**	**30.0%**	**50.0%**	**Underweight**	**10.0%**	**-20.0%**	**No change**
Money Market	0.0%	5.0%	40.0%	Neutral	5.0%	+0.0%	No change
Canadian Bonds	0.0%	25.0%	50.0%	Underweight	5.0%	-20.0%	No change
NON-TRADITIONAL INCOME	**0.0%**	**20.0%**	**40.0%**	**Overweight**	**33.0%**	**+13.0%**	**Increased by 8%**
TRADITIONAL CAPITAL APPRECIATION (STOCKS)	**10.0%**	**30.0%**	**50.0%**	**Neutral**	**30.0%**	**0.0%**	**Decreased by 8%**
Canadian Equity	5.0%	10.0%	30.0%	Overweight	13.5%	+3.5%	Decreased by 4.5%
U.S. Equity	0.0%	7.5%	25.0%	Neutral	7.5%	0.0%	No change
International Equity	0.0%	7.5%	25.0%	Underweight	0.0%	-7.5%	Decreased by 7.5%
Emerging Markets Equity	0.0%	5.0%	15.0%	Overweight	9.0%	+4.0%	Increased by 4.0%
NON-TRADITIONAL CAPITAL APPRECIATION	**0.0%**	**20.0%**	**40.0%**	**Overweight**	**27.0%**	**+7.0%**	**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]

	TRADITIONAL INCOME (BONDS)	NON-TRADITIONAL INCOME	TRADITIONAL CAPITAL APPRECIATION (STOCKS)	NON-TRADITIONAL CAPITAL APPRECIATION
September 28, 2007	-10%	0%	-10%	+20%
January 9, 2008	-4%	0%	-16%	+20%
February 29, 2008	0%	0%	-20%	+20%
September 19, 2008	-10%	0%	-10%	+20%
June 8, 2009	-4%	0%	-16%	+20%
December 9, 2009	-16%	+12%	-16%	+20%
May 6, 2010	-20%	+10%	-8%	+18%
December 13, 2010	-20%	+4%	0%	+16%
August 10, 2011	-20%	+4%	+5%	+11%
November 11, 2011	-10%	+4%	-5%	+11%
April 20, 2012	-20%	+9%	0%	+11%
July 31, 2012	-20%	+14%	-5%	+11%
November 9, 2012	-20%	+14%	+2%	+4%
February 19, 2013	-20%	+13%	+5%	+2%
December 3, 2013	-20%	+20%	0%	0%
April 1, 2014	-20%	+20%	+10%	-10%
November 14, 2014	-20%	+20%	+5%	-5%
July 13, 2015	-20%	+5%	+10%	+5%
October 19, 2015	-20%	+0%	+15%	+5%
June 24, 2016	-13%	+0%	+8%	+5%
July 12, 2016	-20%	+0%	+13%	+7%
July 27, 2016	-20%	+5%	+8%	+7%
March 17, 2017	-20%	+13%	0%	+7%

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

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