— Q4 2018

INVESTMENT OUTLOOK & PORTFOLIO STRATEGY

FIERA CAPITAL
Private Wealth

— MACROECONOMIC LANDSCAPE

Global

Despite the latest escalation in trade tensions and political vulnerabilities in Europe, the narrative of a synchronized global expansion remains firmly intact, while the accommodative monetary and fiscal impulse should allow the expansion to continue uninterrupted in the coming year.

CANADA

The Canadian economy saw little in the way of collateral damage stemming from the previous stalemate in NAFTA negotiations. While the domestic economy has been well-supported by healthy gains in consumer and business spending, the revival in exports has been most encouraging – owing to robust demand stateside and a weaker loonie. The environment of above-trend growth and building pricing pressures has provided the Bank of Canada with the scope to raise interest rates once more in 2018.

UNITED STATES

The US economy continues to fire on all cylinders and is leading the G7 growth charge, with broad-based strength in both the services and factory sectors. Forward looking indicators are pointing to continued economic resilience in the coming year, while the double-dose of fiscal stimulus for an already-buoyant economy should help to boost inflationary pressures – reinforcing the need for the Federal Reserve to continue normalizing monetary policy, albeit very gradually.

INTERNATIONAL

The European economy has reverted back towards more self-sustaining levels, justifying the ECB decision to cease its asset purchases later this year. Meanwhile, economic momentum has improved in Japan, though the subdued inflation backdrop is sure to keep the Bank of Japan in stimulus-mode, while the risk of a breakdown in Brexit negotiations or a change in government represent downside risks to the economic outlook in the UK.

EMERGING MARKETS

Emerging market vulnerabilities remain largely idiosyncratic, while improved financial positions have reduced the likelihood of a 1997-style crisis. Importantly, China's economic trajectory remains stable, while growth drivers have rotated towards consumption and reduced the vulnerability to a full-blown trade war. Policymakers have pledged a willingness to support the economy via stimulative monetary and fiscal policies, helping to counter any negative side effects from newly imposed tariffs.

— ECONOMIC OUTLOOK

Investors had plenty to contemplate over the last quarter, including an escalation in President Trump's protectionist agenda, turmoil in the emerging markets and a politically charged environment in Europe. Specifically, President Trump has now imposed tariffs on a total of $250 billion worth of Chinese imports, while China has retaliated with levies on a total of $110 billion worth of US imports. Furthermore, Trump has ratcheted-up his aggressive posturing and has threatened to slap tariffs on an additional $267 billion if China retaliates further.

However, notable progress has been made elsewhere. After several months of persistent stalemate in NAFTA negotiations, policymakers succeeded in securing a revamped trilateral accord, while a new round of tariffs have been sidelined as the US and European Union undergo trade talks – essentially allowing Trump to shift his focus back to China, the primary target of his protectionist agenda since day one.

Finally, diverging views on the fiscal rules of the European Union are testing the region's financial stability after Italy proposed a much larger than expected budget deficit, while the future of the UK remains frustratingly uncertain as Brexit negotiations linger on with little in the way of progress.

	Q4 2018 THEMES	MACROECONOMIC VIEWS	STRATEGY IMPACT
ECONOMIC FUNDAMENTALS	GLOBAL GROWTH OUTLOOK REASONABLY BRIGHT	While global Purchasing Manager Indices have indeed peaked, leading economic indicators are not suggestive of an imminent downturn or recession at this time	+
CENTRAL BANKS	LESS INTERVENTION BUT FISCAL IMPULSE OFFSETS	Self-sustaining global growth and building pricing pressures reduce the need for ultra-accommodative policies, though the fiscal impulse extends the cycle	+
VALUATIONS	FAIRLY VALUED	With little room for multiple expansion in these later stages of the business cycle, earnings expansion should drive equity returns in the coming year	=
TECHNICALS	BREAKING DOWN	S&P 500 broke below its 200-day moving average; long end of the yield curve finally breaking out of its multi-year range	=
CONSENSUS	OPTIMISM FLUSHED OUT	Approaching pessimistic territory (contrarily positive)	=
VOLATILITY	NEW NORMAL	Sporadic episodes of volatility likely as investors adjust to rising interest rates, lingering global trade uncertainties and political upheaval in Italy and the UK	–

Outlook and Investment Strategy

The good news is that the direct economic impact from these geopolitical tensions is likely to be manageable.

Despite the hostile trading environment, we expect the global economy to continue thriving. Encouragingly, economic momentum remains fairly robust in general, allowing the economy to absorb both higher interest rates and gasoline prices. The fiscal stimulus from both the US and China is set to extend the economic upturn well into 2019 and provide a buffer as major central banks take coordinated steps towards monetary policy normalization.

Our base case remains that the environment of synchronized global growth will outweigh the uncertain geopolitical backdrop at hand. That being said, the potential for periodic bouts of volatility prevails heading into 2019 as visibility of the economic cycle shrinks in time and as monetary policy transitions from accommodative to neutral, which warrants a cautious approach at this time.

— INVESTMENT OUTLOOK

Our current scenarios are for a synchronized global expansion (60%), which is a continuation of the current environment that benefits equities, trade protectionism (15%), which would be negative for equities and positive for bonds, stagflation (15%) which would be detrimental for both bonds and equities, and finally, geopolitical instability (10%) that would introduce significant financial market volatility.

MAIN SCENARIO

SYNCHRONIZED GLOBAL EXPANSION

PROBABILITY 60%

The global economy continues to grind higher in a synchronous manner, with all major regions contributing to the advance. The US leads the global charge, thanks to widespread momentum across both the consumer and manufacturing space, while the double-dose of fiscal stimulus boosts an already-buoyant economy. Meanwhile, the Canadian economy moderates towards a more sustainable, albeit still above-trend pace. Finally, policymakers in Europe and Japan ultimately prove successful in reflating growth, while 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

TRADE PROTECTIONISM

PROBABILITY 15%

The biggest risk to our base case scenario is a rise in protectionism stemming from the US and the threat of a trade war that would derail the synchronous global expansion. Specifically, President Trump's rhetoric on protectionism has translated into action ahead of the midterm elections, with the US imposing tariffs on a variety of imports including solar panels, washing machines, steel and aluminum – which have been met with retaliatory measures from some of America's closest allies in response. Mr. Trump has since upped the ante by imposing tariffs on a total of $250 billion worth of Chinese goods (of which China has retaliated), while threatening to slap tariffs on an additional $267 billion of imports as well as levies on global auto imports – which would be detrimental for trade flows and the global economy alike. In this scenario, anti-trade rhetoric in the US becomes a reality and results in tariffs being imposed on economies such as China, Canada, Europe, Japan and Mexico, with further retaliation igniting a full-blown global trade war.

SCENARIO 3

STAGFLATION

PROBABILITY 15%

After an extended period of undershooting central bank inflation targets, policymakers tolerate higher inflation (overshoot) and monetize inflation by letting the economy run hot. As a result, inflation expectations start to de-anchor from current subdued levels and surge higher. This would come at the same time that fiscal stimulus is being reigned-in (2020) in the later stages of the economic expansion, causing growth to moderate to well below potential levels in response. In the Stagflation scenario, a stagnation in growth occurs concurrently with an acceleration in inflation as a result of previous excessive monetary stimulation and an exhaustion of productive capacity - creating a tumultuous financial market landscape whereby both equities and bonds experience broad based declines.

SCENARIO 4

GEOPOLITICAL INSTABILITY

PROBABILITY 10%

Political upheaval in Europe and vulnerabilities in the emerging world could ignite a crisis in confidence – disrupting the global economy and financial markets alike. Specifically in Italy, the Five Star and League parties have formed a coalition government with Eurosceptic tendencies, with plans to expand fiscal policy that would go against the fiscal rules and threaten the relationship with the European Union – which risks throwing the region into political disarray at the same inopportune time that a lack of progress in Brexit negotiations has raised the odds of a "hard Brexit" scenario. Meanwhile, emerging market economies remain susceptible to a strengthening greenback, particularly those countries with high levels of external debt. An increase in debt-servicing costs raises default risks and capital outflows for the weaker links, with the potential for contagion to spread more broadly across the developing world.

— PORTFOLIO STRATEGY

MATRIX OF EXPECTED RETURNS

SCENARIOS	SYNCHRONIZED GLOBAL EXPANSION	TRADE PROTECTIONISM	STAGFLATION	GEOPOLITICAL INSTABILITY
PROBABILITY	**60%**	**15%**	**15%**	**10%**
TRADITIONAL INCOME (BONDS)	**-0.1%**	**7.9%**	**-5.2%**	**6.6%**
Money Market	1.9%	1.3%	1.8%	1.4%
Canadian Bonds	-0.6%	9.6%	-6.9%	7.9%
NON-TRADITIONAL INCOME	**7.0%**	**5.0%**	**5.3%**	**5.5%**
TRADITIONAL CAPITAL APPRECIATION (STOCKS)	**5.8%**	**-14.7%**	**-10.4%**	**-13.4%**
Canadian Equity	15.7%	-20.7%	-5.0%	-14.3%
U.S. Equity	-7.5%	-9.1%	-12.3%	-11.4%
International Equity	-0.7%	-5.8%	-17.1%	-12.2%
Emerging Market Equity	15.8%	-24.5%	-8.5%	-16.6%
NON-TRADITIONAL CAPITAL APPRECIATION	**7.0%**	**5.5%**	**5.0%**	**4.0%**

CURRENT STRATEGY FOR A BALANCED PORTFOLIO[1]

	MINIMUM	BENCHMARK	MAXIMUM	STRATEGY	ALLOCATION	RELATIVE	OCT. 09-18 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%**	**No change**
TRADITIONAL CAPITAL APPRECIATION (STOCKS)	**10.0%**	**30.0%**	**50.0%**	**Neutral**	**30.0%**	**0.0%**	**No change**
Canadian Equity	5.0%	10.0%	30.0%	Overweight	13.5%	+3.5%	No change
U.S. Equity	0.0%	7.5%	25.0%	Underweight	2.5%	-5.0%	Decreased by 5%
International Equity	0.0%	7.5%	25.0%	Underweight	0.0%	-7.5%	No change
Emerging Markets Equity	0.0%	5.0%	15.0%	Overweight	14.0%	+9.0%	Increased by 5%
NON-TRADITIONAL CAPITAL APPRECIATION	**0.0%**	**20.0%**	**40.0%**	**Overweight**	**27.0%**	**+7.0%**	**No change**

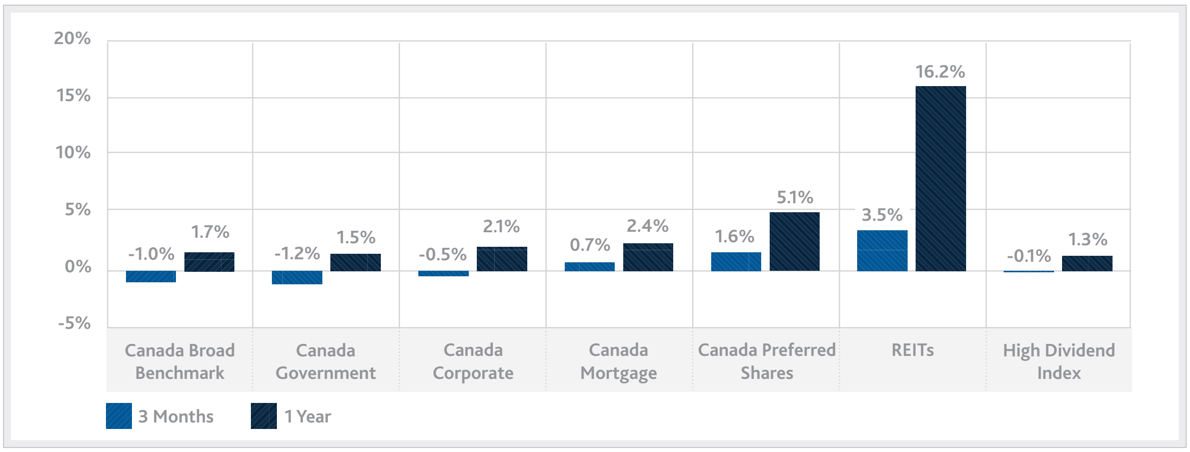
[1] Based on a 100 basis point value added objective. The benchmark employed here is based on a model portfolio and for illustrative purposes only. Individual client benchmarks are employed in the management of their respective portfolios.

— FIXED INCOME REVIEW AND OUTLOOK

Fixed Income Performance: Q3 2018

Fixed income markets posted negative results during the third quarter of 2018. North American bond yields moved higher and yield curves flattened, with the back up in the short end exceeding that of the long end. The short end rose as investors boosted their wagers for central bank normalization, while the long end also moved higher as inflation expectations resurfaced on the back of the robust growth backdrop, signs of building pricing pressures and higher commodity prices. Corporate and high yield bonds outperformed their government peers, with improved risk appetite sending investors flocking into the corporate space during the quarter.

CANADIAN FIXED INCOME MARKET RETURNS SEPTEMBER 30, 2018



Source: Fiera Capital Corporation

Inflation Revival Argues For Less Accommodative Monetary Policy

Not surprisingly, pricing pressures are building globally in response to above-trend growth, tighter labour markets, accelerating wages and higher commodity prices. In response, major central banks have adopted an increasingly constructive stance and are slowly reining in their ultra-stimulative monetary policies.

Specifically in the US, with robust, fiscally-charged growth and rock-bottom unemployment, core inflation has breached the Federal Reserve's 2% target for the first time since 2012. Expansionary fiscal policies and newly announced import tariffs are also likely to further stoke inflationary pressures, reinforcing the Fed's desire to move interest rates higher in the coming year. Similarly, with the Canadian economy operating near capacity, wages in acceleration mode and core inflation sitting at target, conditions remain ripe for further rate increases from the Bank of Canada. Looking abroad, the European Central Bank has announced an end to its asset purchases at the end of this year, though managed to soften the blow by reiterating that rates will remain unchanged until "well past the summer of 2019". The Bank of Japan continues to dominate the reflationary impetus in the marketplace, though has slowly begun to shift its tune and adjusted its yield curve control regime, allowing bond yields to drift higher alongside its global peers.

It is worth noting that fiscal authorities in the US and China (the world's two largest economies) have stepped up and are taking the stimulus baton from their central bank peers, extending the reflationary window in the marketplace and allowing central banks to proceed with policy normalization in the coming year.

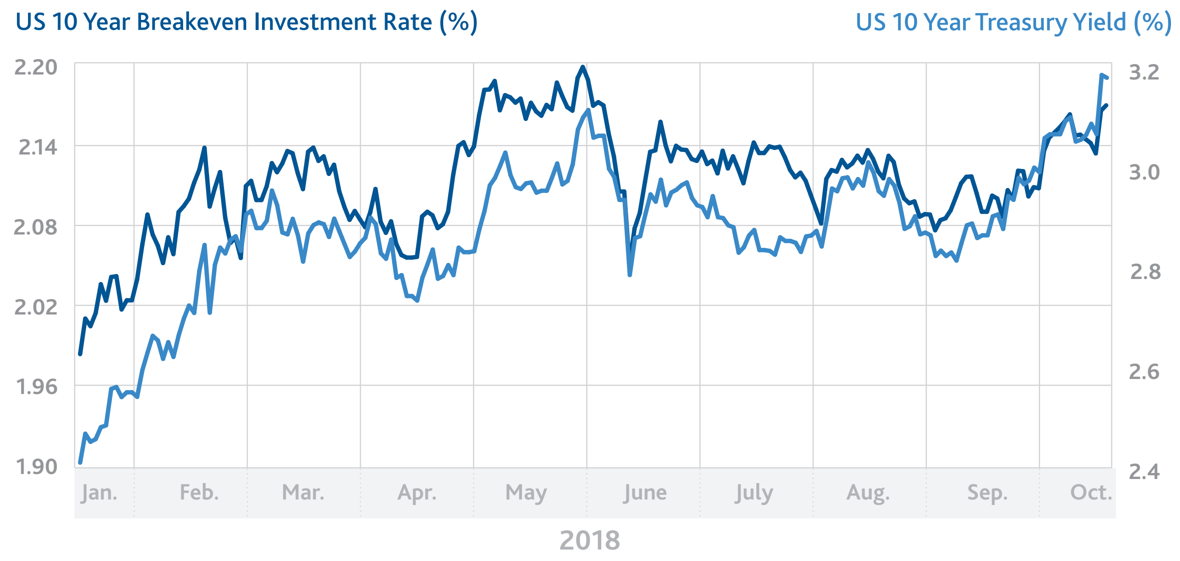
Investment Strategy

Looking forward, we continue to expect yield curves to steepen. While we expect only modest re-pricing at the short end of the curve, a revival in inflation expectations is expected to place upward pressure on the long end of the curve – owing to buoyant global growth prospects and tighter labour markets. Furthermore, treasury supplies are set to increase as the US government ramps up borrowing to fund swelling deficits (at a time when the Fed is unwinding its balance sheet), prompting investors to demand higher treasury yields.

Taken together, we believe that the path of least resistance for global government bond yields remains higher (and prices lower) in the environment of robust and above-trend global growth, rebuilding inflationary pressures and coordinated monetary policy normalization.

In this environment, we maintain our underweight allocation to fixed income. Within the asset class, we maintain a short duration positioning, while also looking further up the risk spectrum towards spread product and inflation protection – both of which should thrive in the pro-cyclical environment of negligible recession (default) risks and a revival in inflation expectations.

BOND YIELDS BREAKING HIGHER



After trading in a tight range throughout most of the year, the US 10 year treasury yield broke out and soared to its highest level since 2011. The combination of ongoing resilience in the world's largest economy, an acceleration in wages and surging crude prices have fueled a long-overdue revival in inflation expectations and accordingly, a back up in the long end of the curve.

Source: Bloomberg

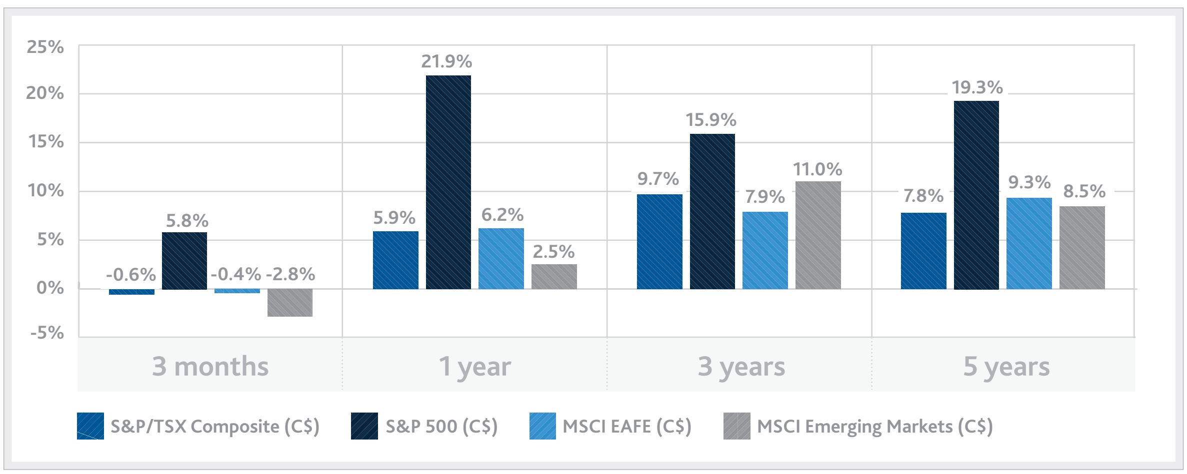
— EQUITY REVIEW AND OUTLOOK

Equity Market Performance: Q3 2018

Global equity markets proved fairly resilient in the environment of heightened trade tensions and emerging market turmoil.

That being said, while the MSCI All Country World index ended the quarter firmly in positive territory, equity results diverged on a regional basis. Namely, the US equity market was the clear winner during the third quarter and breached fresh record highs. In contrast, the Canadian equity market remained under pressure as negotiations between the US and Canada yielded little in the way of progress towards a revamped NAFTA and weighed on the TSX. European stocks were under pressure amid lingering trade headwinds and concerns that Italy's populist coalition will collide with the EU over the expansionary fiscal budget, though Japanese markets managed to soar higher on the back of the weaker yen and robust earnings growth. The combination of rising US yields, a strengthening greenback, trade tensions and some idiosyncratic issues in Turkey and Argentina triggered widespread outflows from emerging market assets, sending the index of developing market stocks pummelling lower – though managed to pare quarterly losses amid some softer dollar conditions at quarter-end.

EQUITY MARKET RETURNS SEPTEMBER 30, 2018



Source: Fiera Capital Corporation

The latest bout of outperformance and decoupling of US stocks versus the rest of the world has resulted in a sizeable valuation gap – its largest in over a decade. Investors have flocked to the perceived safety of the US equity market in response to the escalating trade dispute between the world's two largest economies, which has sent multiples decisively higher. In contrast, multiples in both Canada and emerging markets have contracted, even despite the strong fundamental backdrop that includes healthy economic growth prospects and a strong earnings environment. However, as lingering trade headwinds recede and fundamentals begin to matter once again, unfairly punished markets in both Canada and the emerging economies could be ripe for a reversal, in our view.

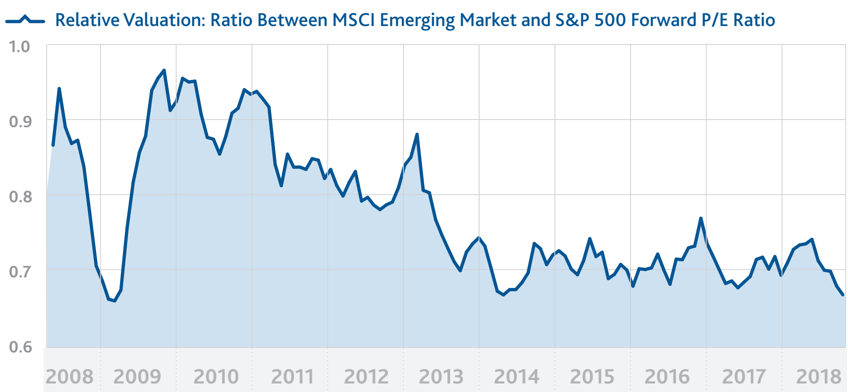
Emerging market equities have taken the brunt of the weakness related to the US-China trade dispute and a strengthening greenback. While vulnerabilities exist across select economies, we expect weakness to be fairly contained and unlikely to spread more broadly across the emerging market space. Importantly, the rest of the emerging world has drastically improved their financial positions since the 1997 crisis, the 2008 global financial crisis and the 2013 taper tantrum, and are better able to tolerate higher US borrowing costs.

Looking forward, we expect the combination of superior growth prospects versus the developed world and robust earnings momentum to boost emerging market stocks, while softer dollar conditions should also alleviate some of the pressure on emerging market assets in general.

Investment Strategy

While market sentiment remains fragile, the good news is that the conditions for a recession remain elusive at this time. Looking ahead, global equity markets should remain well supported by the vigorous economic backdrop, healthy corporate earnings prospects and reasonable valuations, while the pragmatic approach to central bank normalization should allow the economic upswing to continue on uninterrupted in the coming year, helping to counter any geopolitical uncertainties at hand. That being said, the investment landscape has admittedly turned more volatile in 2018, which warrants some caution in the near-term.

EMERGING MARKET EQUITIES: A COMPELLING BUYING OPPORTUNITY



The valuation discount for the MSCI Emerging Markets versus the S&P 500 has widened to levels not seen since the depths of the financial crisis - offering an attractive investment opportunity in the context of a healthy economic and corporate earnings backdrop. Morever, vulnerabilities in both Turkey and Argentina (which represent a very small fraction of the total index) are fairly idiosyncratic in nature, with fears of contagion more broadly across the emerging world largely priced-in, in our view.

Source: Bloomberg

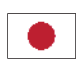
CANADA
STRATEGY: OVERWEIGHT

Canadian equities should thrive in the environment of stronger global growth, accelerating earnings expectations, rising commodity prices and steeper yield curves. Headline risks pertaining to trade have clouded the healthiest fundamental backdrop in years and created a significant valuation discount, setting the stage for a re-rating as NAFTA overhang fades.

USA
STRATEGY: UNDERWEIGHT

While US equities should thrive on the buoyant domestic growth backdrop, relative upside is limited and caution is warranted given already-stretched valuations at a time when the Fed is embarking on interest rate normalization – while the potential for political gridlock following the midterm elections could also weigh.

INTERNATIONAL
STRATEGY: UNDERWEIGHT

While the European economy is demonstrating signs of health, political susceptibilities in Italy and a vulnerable banking sector could hinder equity performance. Meanwhile, uncertainty regarding the future of the UK will place undue pressure on UK equities as Brexit negotiations linger on, while yen strength could rattle Japanese markets.

EMERGING MARKETS
STRATEGY: OVERWEIGHT


Developing markets remain best positioned to benefit from the reflationary thrust in the marketplace and should ultimately prove resilient to a tighter Fed in the context of undemanding valuations, thanks to the broad improvement in global growth, robust earnings growth and favourable dollar conditions.

— COMMODITIES AND CURRENCIES

CAD / USD

The Canadian dollar ended the third quarter on a bright note, owing mainly to the constructive backdrop for crude prices and as policymakers managed to secure a revamped NAFTA by the September 30th deadline. With NAFTA overhang receding in the aftermath of the trilateral accord, the economy operating at capacity and inflationary pressures on the rise, expectations for a faster pace of rate hikes from the Bank of Canada should help to narrow interest rate differentials between Canada and the US and boost the Canadian dollar going forward. The environment of higher crude prices should also lend support. We expect US dollar conditions to soften as markets recalibrate their bets for ex-Federal Reserve central banks to normalize policy, while a deteriorating US fiscal position should also weigh on the greenback.

OIL

During the third quarter, oil prices were buoyed by the favourable supply backdrop that has helped to rebalance the crude market further, even as the tumultuous trade backdrop threatened global demand. Notably, OPEC and Russia have signaled no immediate plans to raise production in the environment of higher prices, despite looming US sanctions on Iranian oil exports, while the potential for disruption in Venezuelan output and Libyan/Iraqi exports has also added to the prospect for a tighter market. The outlook for crude remains constructive due to the lucrative fundamental backdrop at hand, with OPEC/Russia maintaining production discipline and tight spare capacity, and geopolitical tensions taking effect in the context of a stronger, more synchronized global growth backdrop – placing a sturdy floor under prices in the coming year.

GOLD

Gold failed to obtain a safe haven bid in what was an erratic quarter on the geopolitical front. Instead, bullion was pressured lower as investors contemplated recent strength in the greenback and the Federal Reserve's plans to raise interest rates – both of which dampened appetite for the yellow metal. Looking forward, we remain neutral on gold due to some opposing forces in play. While prices remain vulnerable as the stronger growth and inflation trajectory in the US accelerates the pace of monetary policy normalization, the environment of lingering geopolitical angst should help to place a floor under prices.

COPPER

Copper prices were under severe pressure during the third quarter as the escalating trade dispute between the US and China threatened to erode global growth and accordingly, demand for the red metal. Regrettably, anxieties on the trade front have come up against some encouraging signs of a still-healthy global demand backdrop that is being met with supply constraints all at once, while the fiscal and monetary impulse from Chinese policymakers should reinvigorate demand from copper's number one consumer and bolster prices going forward.

Source (4 charts): Bloomberg

— FORECASTS FOR THE NEXT 12 MONTHS

SCENARIOS	SEPTEMBER 30, 2018	SYNCHRONIZED GLOBAL EXPANSION	TRADE PROTECTIONISM	STAGFLATION	GEOPOLITICAL INSTABILITY
PROBABILITY		60%	15%	15%	10%
GDP GROWTH (Y/Y)					
Global	3.50%	4.00%	2.00%	2.75%	3.00%
Canada	2.40%	3.00%	0.50%	2.75%	1.00%
U.S.	2.90%	3.50%	1.00%	2.75%	1.00%
INFLATION (HEADLINE Y/Y)					
Canada	2.80%	2.50%	1.50%	3.00%	1.50%
U.S.	2.70%	2.50%	2.00%	3.00%	1.75%
SHORT-TERM RATES					
Bank of Canada	1.50%	2.25%	1.00%	2.00%	1.25%
Federal Reserve	2.25%	3.00%	2.00%	2.75%	2.25%
10-YEAR RATES					
Canada Government	2.43%	3.00%	1.40%	3.80%	1.70%
US Government	3.06%	3.40%	2.25%	4.25%	2.00%
PROFIT GROWTH (12 MONTHS FORWARD)					
Canada	17.9%	21.0%	-14.3%	18.5%	-4.2%
U.S.	12.7%	13.9%	-5.6%	7.4%	-2.4%
EAFE	8.1%	5.5%	-9.6%	-2.1%	-13.4%
EM	14.1%	21.7%	-20.9%	9.6%	-20.9%
P/E (FORWARD 12 MONTHS)					
Canada	13.8X	15.5X	15.0X	13.0X	14.5X
U.S.	16.8X	16.5X	16.5X	16.0X	16.0X
EAFE	13.8X	15.0X	14.0X	13.0X	14.0X
EM	11.2X	13.0X	11.0X	11.0X	12.5X
CURRENCIES					
CAD/USD	0.77	0.83	0.70	0.80	0.72
EUR/USD	1.16	1.20	1.10	1.10	1.00
USD/JPY	113.70	110.00	100.00	120.00	100.00
COMMODITIES					
Oil (WTI, USD/barrel)	73.25	80.00	50.00	90.00	55.00

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