Macroeconomic Landscape

Global Growth

The global economy lost some steam in the third quarter as the resurgent pandemic dampened the recovery. Still, the global economy remains on solid ground, allowing policymakers to begin reining in their ultra-accommodative monetary stimulus.

Canada

The Canadian economy contracted in the second quarter for the first time since the pandemic struck in 2020. While the latest COVID-19 wave and some supply-side limitations may lead to a more protracted recovery, the economic revival nevertheless remains underway. Canada's world-leading vaccination campaign has allowed for a sustained reopening, while massive stockpiles of household savings, the release of pent-up demand and robust growth stateside should make way for a healthy recovery as the fourth wave ebbs and supply bottlenecks ease.

United States

After reaching peak growth in the second quarter, the US economy has cooled amid the rapidly spreading Delta variant, a fading fiscal impulse and lingering capital and labour supply constraints. However, some tentative signs of cresting COVID-19 infections should prevent the labour market recovery from going into reverse and will ensure that consumer spending continues to drive the recovery – particularly as households have accumulated over $2 trillion in excess savings that are ripe for spending as the reopening progresses.

International

The Eurozone has enjoyed a comeback amid climbing vaccination rates and reopening momentum. The Japanese economy remains in the doldrums and has lagged as consumers and businesses continue to grapple with the pandemic, with strength in external demand coming up against a domestic economy that has been hindered by extended emergency measures. Still, there is scope for catch-up in Europe and Japan as their domestic recoveries advance, with the global growth impetus shifting from the US to the rest of the world.

Emerging Markets

The Chinese slowdown intensified, with sporadic COVID-19 outbreaks and localized lockdowns stifling consumption, while supply disruptions and pollution-curtailing environmental policies have curbed factory production. The moderation has been exacerbated by the profound shift in China's socio-political and economic priorities engendered by President Xi Jinping's goal of "common prosperity", with sweeping regulatory reforms and lingering uncertainty around the implementation of these policies weighing on an economy that Is already slowing. This may prompt a reflationary policy response to contain a broader financial and economic fallout.

Economic Outlook

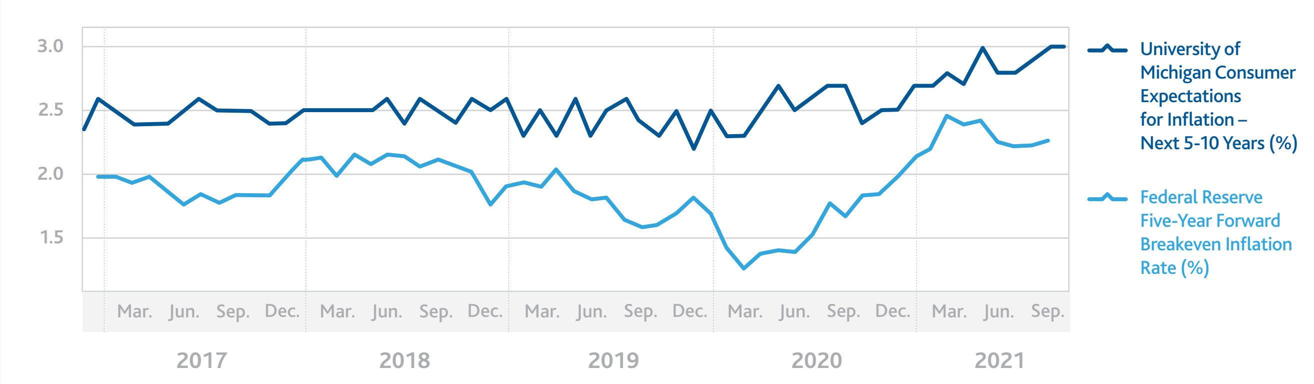
A Reflationary Recovery

The macroeconomic landscape has undergone some notable shifts over the last quarter, with important implications for the outlook and investment strategy.

On the growth front, the global economy is in the process of transitioning from the rapid, post-COVID revival towards a more normal recovery cycle. Recent activity data has revealed a marked slowdown in the pace of the recovery across the world's major economies owing to the Delta variant's impacts on international supply chains and domestic consumption. That being said, peak growth does not equate to low growth. While cooling from the vigorous initial pace this summer, global growth is expected to remain strong and above-trend through 2023 as the virus ebbs, activity continues to normalize, pent-up savings are unleashed and supply bottlenecks resolve themselves.

On the policy front, inflation has been running above-target in most major developed economies. While much of the acceleration can be attributed to effects from the pandemic that should ultimately fade over time, there are some tentative signs of a build-up of underlying cyclical pricing pressures given the persistence of above-trend growth, a solid labour market recovery and rising commodity prices. In response, policymakers have slowly begun to take their foot off the accelerator and are gradually dialing back emergency-level stimulus. The Bank of Canada is already moving in this direction, while the Federal Reserve is widely expected to begin tapering its asset purchases later this year.

Long-Term Inflation Expectations Remain Stable



The global economic recovery has cooled and is transitioning towards a normal cyclical recovery. Still, the trajectory for growth remains solid and above-trend over our forecast horizon. While underlying pricing pressures will almost certainly ensue given that output gaps will have closed and the economy will be operating at full potential by end-2022, well-anchored inflation expectations should allow policymakers to pursue a gradual and measured transition from ultra-stimulative monetary policy towards a neutral stance.

Source: Bloomberg

Investment Strategy

While the global economic recovery remains firmly entrenched, risks are mounting at a time when much of the good news pertaining to the macroeconomic backdrop has been priced in, leaving scope for disappointment should something go awry. Specifically, health risks are once again front-and-center as the highly transmissible Delta variant circulates across the globe, which has brought into question the strength and durability of the global recovery. Already, China's recovery has slowed, and the regulatory and economic upheavals in China have further clouded the outlook. Meanwhile, we have passed the point of peak stimulus, and this loss of global economic momentum comes while policymakers are incrementally reducing their unprecedented support. As a result, we are comfortable assuming a neutral stance on equities after the powerful gains realized over the last 18 months.

Economic Scenarios

Main Scenario | Reflationary Recovery

Probability **50%**

Our base case scenario calls for the global economic recovery to extend at an above-trend pace over the next 12 to 18 months, without the fear of a premature monetary policy tightening event. The successful rollout of several safe and effective vaccines and/or treatments ultimately accelerates the return to economic normality. As the wider population gets inoculated and as virus trends improve, both isolationism and social distancing measures abate and sentiment improves drastically. Restrictions are relaxed and the reopening progresses across the larger economy. In response, economic activity snaps back dramatically as pent-up demand is unleashed, particularly given that savings remain extraordinarily elevated across the globe, which amplifies the nascent recovery. Meanwhile, inflation expectations remain well-anchored, which allows policymakers to look through the post-pandemic surge in inflationary pressures and extend their highly-accommodative monetary policy stance. While central bank asset purchases are indeed set to be scaled down through 2022, the bar for interest rate increases remains higher over this 12-18 month timeframe. Nevertheless, both the Federal Reserve and the Bank of Canada begin the gradual rate normalization process by mid-2023 given that their respective economies will be operating at full potential and output gaps will be closed. Still, the 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 shift persistently higher and de-anchors inflation expectations, with global economic prospects subsiding amid the fallout. Specifically, the near-term spike in pricing pressures proves more enduring than expected, and lasts long enough to become embedded in inflation expectations. 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 (aging populations), or skill mismatches in the post-pandemic reality. The subsequent rise in input costs and the rapid buildup in wages cuts into the profitability of corporations, consumers struggle to maintain their purchasing power, and inflation expectations become de-anchored. 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 moderation in global growth to well 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 | Economic Relapse

Probability **10%**

Another wildcard continues to be the emergence of highly-transmissible COVID-19 variants that have become the dominant strain across much of the globe. Failure to keep the pandemic under control risks a more protracted period of restrictions that delays the return to normal and jeopardizes the imminent recovery. At the same time, vaccine hesitancy in some parts of the world has created a hurdle to reaching herd immunity and fully eradicating COVID-19. As it takes longer to gain control over the propagation of the virus, mitigation efforts from governments and social distancing behaviours linger on and health fears prompt some reluctance from consumers and businesses to re-engage fully. Meanwhile, the global economy takes longer to reopen fully, while confinement measures are reinstated and fuel a steep contraction in growth. However, the silver lining is that the fragile state of the economy and stubbornly-elevated unemployment ensures that monetary and fiscal policy remain expansionary, which helps to alleviate any permanent damage in this calamitous risk-off scenario.

Portfolio Strategy

Matrix of Expected Returns

SCENARIOS	REFLATIONARY RECOVERY	STAGFLATION	ECONOMIC RELAPSE
PROBABILITY	**50%**	**40%**	**10%**
TRADITIONAL INCOME			
Money Market	0.3%	0.8%	0.3%
Canadian Bonds	-6.5%	-8.7%	7.3%
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	9.0%	-8.3%	-36.5%
U.S. Equity Large Cap	-12.5%	-16.0%	-32.4%
International Equity	-10.7%	-14.5%	-33.0%
Emerging Market Equity	-2.1%	-13.4%	-36.1%
NON-TRADITIONAL CAPITAL APPRECIATION			
Private Equity	15.0%	12.0%	5.0%
Liquid Alternatives	7.0%	5.0%	0.0%

Portfolio Strategy

Current Strategy[1]

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%

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 Outlook

Fixed Income Review

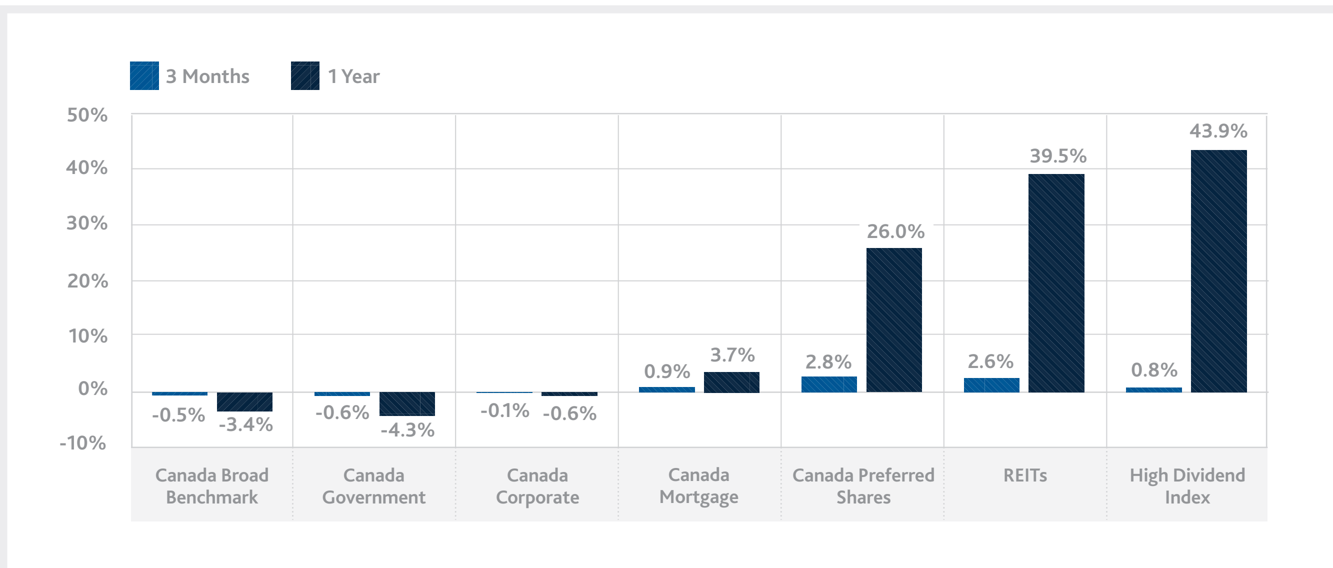
Fixed income markets gyrated throughout the third quarter. After testing sub-1.20% levels in August as traders brushed off signs of higher inflation and contemplated Delta risks, the 10-year treasury yields broke higher following the hawkish-leaning outcome of the September Federal Reserve gathering, where officials set the stage for a moderation in the pace of monthly asset purchases later this year and as participants brought forward their timing for Fed funds liftoff.

Global pricing pressures have intensified, with a confluence of forces pushing inflation to multi-year highs. Supply chain bottlenecks and impacts from the reopening have fueled much of the acceleration, with excessive pent-up demand chasing a restrained supply backdrop. While indeed transitory, these pandemic-related forces appear to be making way for more cyclical pricing pressures.

Ultimately, the outlook for inflation hinges on whether labour and supply shortages become more enduring, with factors such as persistent supply chain dislocations, unrelenting strength in commodity prices and rising wages causing inflation to stay higher. Also, robust home prices are almost certain to feed into higher rents, while the above-trend growth trajectory and steadily improving labour market conditions are expected to keep inflation elevated.

Policymakers have begun the process of scaling back on emergency-level stimulus, with the Federal Reserve on track to taper its asset purchase program later this year. However, the bar for rate hikes remains high, and liftoff is not likely until late 2023 given central banks' determination to generate above-target inflation in the coming economic cycle.

Canadian Fixed Income Market Returns | As of September 30, 2021



Source: Fiera Capital Corporation

Investment Strategy

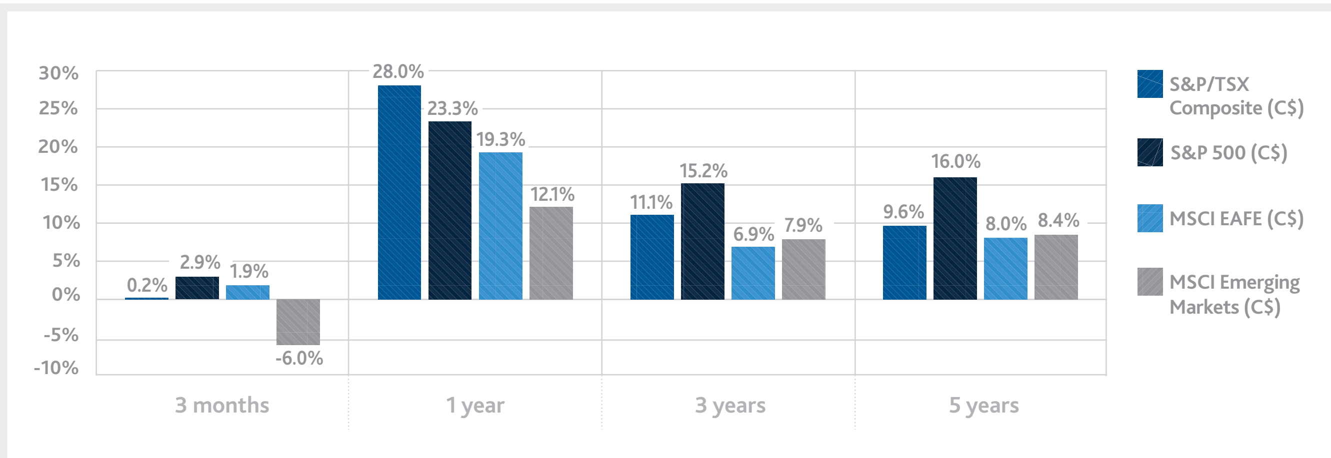
With global growth holding firm, central banks poised to normalize policy and inflation running between 3% and 4%, it is surprising that government bond yields remain at these depressed levels. Consequently, the path of least resistance for government bond yields should be higher given our expectation for a continuation of the economic revival and elevated inflationary pressures. We expect yield curves to steepen in a bond-bearish fashion. Long-term government bond yields should rise as markets solidify expectations for policy normalization from major central banks, while lingering pricing pressures will cause investors to demand higher compensation for inflation risk. While corporate credit remains attractive given the supportive macro backdrop that should mitigate default risks, very tight spreads have limited any notable upside potential. This unappealing outlook underpins our maximum underweight allocation to the traditional fixed income asset class. We recommend that investors maintain a short duration and position for a steeper yield curve, with a preference for corporate versus government exposures and inflation-linked versus nominal bonds.

Equity Outlook

Equity Review

Global equity markets generated some mixed results during the third quarter. Financial market turbulence resurfaced as investors contemplated the fast-spreading Delta variant, signs of cooling global growth, accelerating inflationary pressures and the path for monetary policy – all of which sparked some volatile trading conditions late in the quarter. Developed markets outperformed their emerging market peers. While both the Canadian and US benchmarks managed to eke out modest gains, emerging market stocks underperformed by a wide margin as China's widening regulatory crackdown and contagion fears stemming from Evergrande Group's debt woes sent Chinese stocks spiraling.

Equity Market Returns | As of September 30, 2021



Source: Fiera Capital Corporation

Investment Strategy

Global equity markets have recorded some impressive gains since the March 2020 lows. The combination of vaccine rollouts and reopening momentum boosted the outlook for growth and corporate earnings, while the abundance of monetary and fiscal support added to this supportive narrative. However, our sense is that much of the optimism pertaining to this favourable macroeconomic backdrop has been priced in at current levels, leaving investors susceptible to some near-term turbulence given the emergence of near-term headwinds. Specifically, sentiment remains fragile amid renewed health fears, which may prompt some near-term profit-taking. Moreover, monetary policy is set to normalize, and investors will need to recalibrate their expectations accordingly. The uncertainty associated with an incremental withdrawal of policy support is bound to transmit more volatility to financial markets, while multiples are set to contract as the monetary impulse progressively fades. While global growth is set to remain firm, much of the upside for corporate earnings has been realized and strong recoveries have already been discounted. Earnings estimates have become increasingly optimistic, and profits may be squeezed in the environment of slowing growth, higher input prices and accelerating wage gains.

Taken together, the combination of buoyant earnings expectations, intensifying pressure on profit margins and limited scope for further multiple expansion implies a challenging environment for equities, with more muted and volatile expected returns in the coming 12-18 months. Regionally, we continue to expect Canadian equities to outperform in the reflationary environment of rising commodity prices, accelerating inflation and higher interest rates that should bode well for TSX earnings momentum. Importantly, while higher inflation and rising bond yields are a tailwind for cyclical-value sectors that dominate the S&P/TSX, they are likely to weigh disproportionally on the more expensive corners of the market in the defensive growth space, such as technology. Indeed, rising long-term interest rates favour the earnings of value stocks and weigh on the multiples of their growth peers.

Private Alternatives Outlook

The Case for Private Alternatives

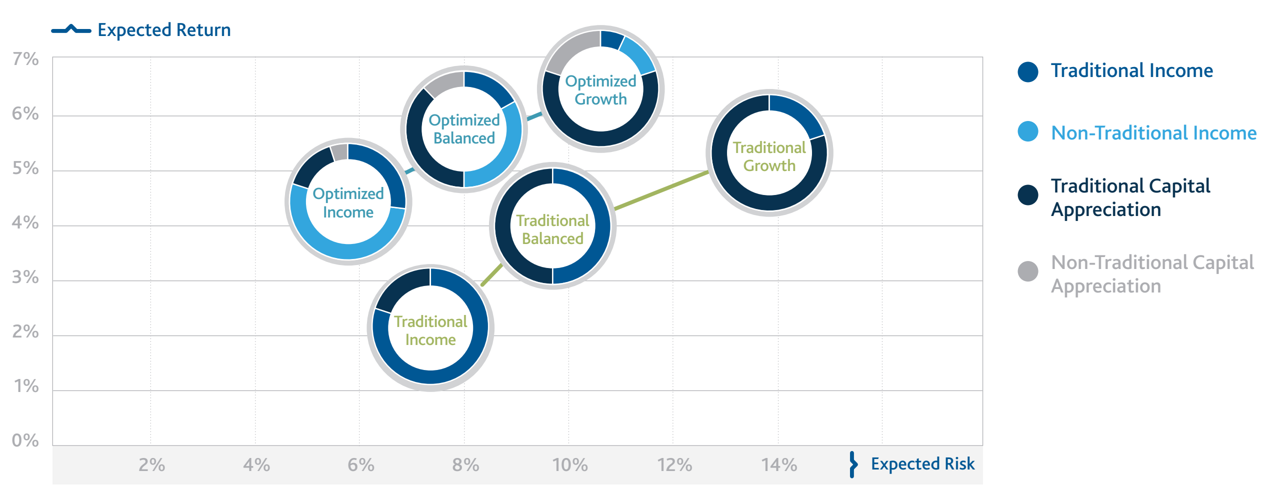
Traditional multi-asset portfolios have benefitted from robust returns in both fixed income and equity markets over the last several years. However, the outlook for these asset classes remains somewhat challenged after an extended period of solid performance, with stretched valuations in both bonds and equities limiting future upside potential.

Interest rates are currently pinned at historic lows, leaving fixed income markets in extremely overvalued terrain. As a result, questions have surfaced about the inherent safety of the so-called conservative asset class. While offering little in the way of income generation, the low starting point for interest rates has condemned government bonds to future losses, while tight credit spreads have limited the scope for solid gains in the corporate space. Consequently, traditional fixed income strategies are unlikely to play the same role of providing both stability and income in the portfolio setting, with far too little coupon income to offset any capital losses as interest rates rise. Meanwhile, after a brief bear market in 2020, global equity markets have soared back to record highs. The easy money has clearly been made and we expect more muted (and potentially more volatile) equity returns after the latest record run.

Investment Implications

This less favourable risk-reward proposition for traditional asset classes underscores the need to diversify a portfolio's exposures towards private alternatives. Indeed, the construction of a well-balanced portfolio will need to integrate higher allocations to both private debt and equity in order to compensate for sub-par returns in the traditional space. The relatively uninspiring outlook for traditional bonds argues for increased exposure to non-traditional sources of income, including diversified credit and real asset strategies that exhibit low correlations to traditional asset classes, while also generating more competitive income streams. Furthermore, real asset strategies including real estate, infrastructure and agriculture provide protection against higher inflation, which is an important consideration given our longer-term inflation forecast. Meanwhile, private equity has demonstrated an ability to outperform public equities, even in market downturns, with less volatility.

This macroeconomic outlook requires an expanded set of investment opportunities, and the natural evolution for those seeking stability, higher income and the potential for capital gains is a pivot towards non-traditional asset classes such as private credit, real assets and private equity.



By redirecting a portion of your portfolio from traditional to non-traditional strategies, we create portfolios with improved risk-return characteristics.

Commodities and Currencies

CAD / USD

The US dollar strengthened as some global economic angst saw unnerved investors bid up the safe haven currency, while the late-quarter jump in treasury yields also underpinned demand for the greenback. The Canadian dollar depreciated amid underlying US dollar strength, even despite the powerful rally in oil prices. The path of least resistance for the US dollar remains lower, in our view. The countercyclical nature of the dollar implies underperformance as the reflationary trade gains further traction. We expect the US dollar to revert lower as the rest of the world catches up to the recovery in the United States, with the rotation in relative growth dynamics and interest rate differentials favouring ex-US dollar currencies. The secular downtrend in the US dollar should buttress the Canadian dollar, while our expectation for widespread strength across the commodity spectrum should provide key tailwinds for the loonie over the next 12 to 18 months.

Oil

Oil extended its tremendous advance in the third quarter thanks to a solid global economic recovery that drove demand for crude and depleted stockpiles, helping the market to find a better balance. Signs of tightening market conditions bolstered prices alongside an energy crunch that is set to increase demand for crude. Of note, surging natural gas prices are expected to boost demand for oil products in power generation over the winter months. Moreover, inventories have been on the decline in Europe, the US and China, even as OPEC and its allies add more barrels to the market. OPEC+ is wagering that the market can absorb the additional flows as demand recovers from the pandemic and stockpiles get drawn down. Taken together, we expect crude oil prices to stay firm given our expectation for a strong and above-trend growth trajectory that continues to reinvigorate demand as the reopening progresses and activity normalizes.

Gold

Gold struggled as policymakers signaled that emergency stimulus would be dialed back, which sent treasury yields soaring and reduced the appeal of the non-interest-bearing metal. Looking forward, the Federal Reserve's tolerance for higher inflation and an extended period of rock-bottom policy rates will keep real yields pinned lower and prop up prices, while a structurally weaker dollar and bullion's appeal as a hedge for future inflation should also underpin prices.

Copper

Copper retreated in the third quarter as China's flagging economic recovery weighed on demand prospects from the red metal's top consumer. Considered a barometer for global growth, copper should remain on solid footing as supply struggles to keep up with renewed demand. While President Biden's infrastructure spending plans should bode well for industrial metals, copper will be a prime beneficiary in the global effort to scale up in green infrastructure spending.

Source: Bloomberg

Forecasts for the Next 12-18 Months

SCENARIOS	SEPTEMBER 30, 2021	REFLATIONARY RECOVERY	STAGFLATION	ECONOMIC RELAPSE
PROBABILITY		**50%**	**40%**	**10%**
GDP GROWTH 2021				
Global	5.90%	6.00%	5.00%	-4.50%
Canada	5.20%	6.00%	5.00%	-5.00%
U.S.	5.90%	7.00%	6.00%	-3.50%
GDP GROWTH 2022				
Global	4.50%	5.00%	3.50%	-4.50%
Canada	4.00%	3.50%	1.50%	-5.00%
U.S.	4.10%	4.50%	1.50%	-3.50%
INFLATION (HEADLINE Y/Y)				
Canada	4.10%	4.00%	3.50%	0.50%
U.S.	5.30%	4.00%	3.50%	0.50%
SHORT-TERM RATES				
Bank of Canada	0.25%	0.25%	1.25%	0.25%
Federal Reserve	0.25%	0.25%	1.25%	0.25%
10-YEAR RATES				
Canada Government	1.51%	3.00%	3.50%	0.50%
U.S. Government	1.49%	3.00%	3.50%	0.50%
PROFIT ESTIMATES (12 MONTHS FORWARD)				
Canada	1300	1250	1150	850
U.S.	213	215	200	150
EAFE	155	155	145	90
EM	95	100	90	55
P/E (FORWARD 12 MONTHS)				
Canada	15.4X	17.5X	16.0X	15.0X
U.S.	20.2X	20.0X	19.5X	16.0X
EAFE	14.7X	15.0X	14.5X	14.0X
EM	13.2X	14.0X	13.0X	12.0X
CURRENCIES				
CAD/USD	0.79	0.90	0.85	0.65
EUR/USD	1.16	1.25	1.15	1.00
USD/JPY	111.29	100.00	105.00	110.00
COMMODITIES				
Oil (WTI, USD/barrel)	75.03	90.00	75.00	35.00
Gold (USD/oz)	1755.30	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.

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