



As at December 31, 2022

Quarterly Commentaries

CDSPI COMMON STOCK FUND



FIERACAPITAL



The texts and information contained in this document are based on the investment strategies applicable to the majority of our assets under management. Certain details may not be applicable to your portfolios if specific constraints govern their management.

Macroeconomic Landscape

Global

Heading into the new year, the outlook remains fraught with uncertainty. Global growth momentum is fading as major central banks forge ahead with their unrelenting fight against inflation.



Canada

The Canadian economy is operating above its potential growth rate (excess demand), which ultimately works against the Bank of Canada's efforts to cool inflation. The only way to re-introduce the necessary economic slack that takes pressure off inflation is through higher interest rates. As 2023 unfolds, economic conditions are set to deteriorate as higher borrowing costs and pricing pressures take their toll on households and businesses – though one bright spot could be on the trade front given that commodity prices remain elevated.

United States

The US economy held fairly firm through 2022 as a strong labour market and accumulated savings from the pandemic buttressed consumer spending. However, these same developments have complicated matters for the Federal Reserve as it attempts to stamp out decades-high inflation. Inflation in the core services area remains particularly persistent and reflects the imbalances between supply and demand in the labour market and the overall economy, which will ultimately force the Federal Reserve to engineer a harder landing for the world's largest economy.

International

The European and United Kingdom economies are set to start the new year in recession as spiraling energy prices and tighter financial conditions weigh on both consumers and businesses. Nonetheless, both the European Central Bank and the Bank of England are pushing forward with rate increases, despite the fragile state of their respective economies. While Japan avoided a recession in 2022, risks are to the downside in 2023 as soaring costs curtail domestic activity, while weakening global demand is expected to weigh on exports.

Emerging Markets

The Chinese economy may go against the global grain in 2023, with recent pro-growth policy shifts setting the stage for a recovery in domestic demand. Following the 20th Party Congress, China has shifted its stance on COVID policy and the property sector, the two constraints on the economy. Authorities have pursued a relaxation of their stringent COVID controls and are providing support to the ailing property sector. Still, immediate shocks from widening outbreaks and subsequent disruptions to activity suggest that the road to recovery could be a bumpy one.

Economic Outlook

Recession Risks Loom Large

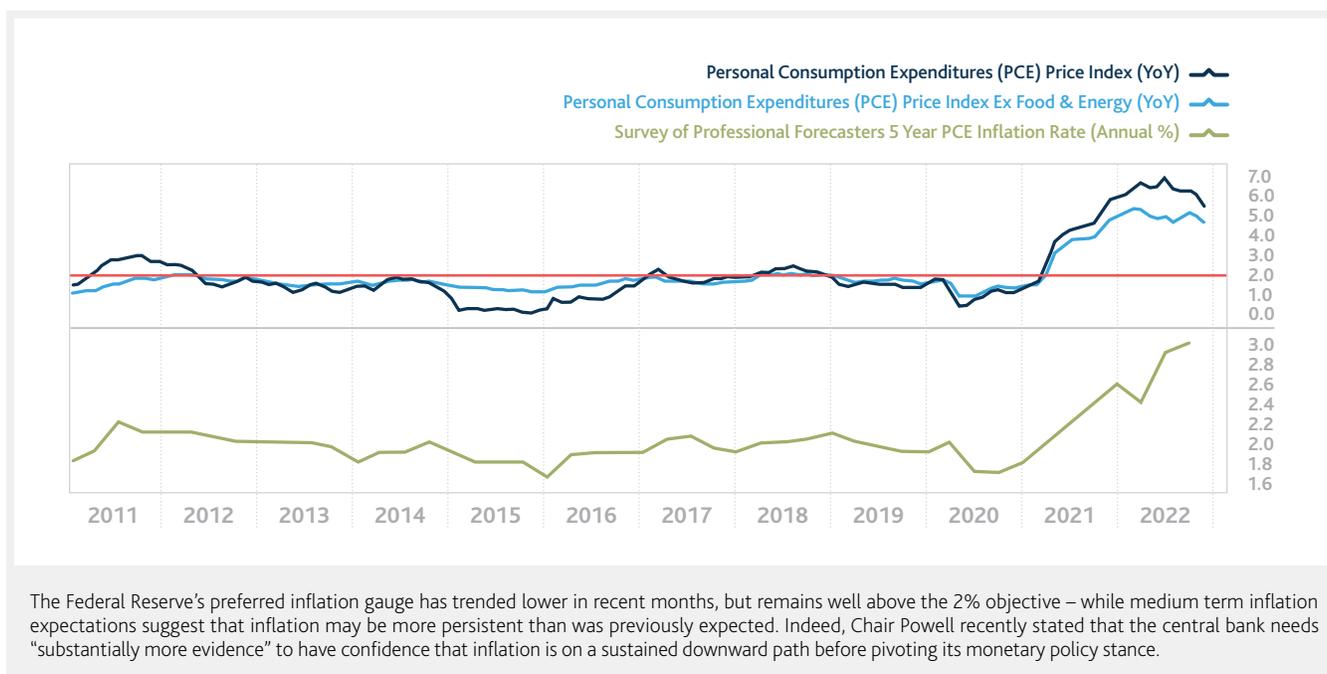
It goes without saying that 2022 was a tumultuous year as decades-high inflation prompted an aggressive tightening campaign from major central banks. Both equity and bond markets produced negative, double-digit returns in 2022, something not seen in the past 50 years. However, investors got some much-needed reprieve in the fourth quarter as signs of cooling inflation sparked hopes for a dovish pivot in monetary policy. Still, we maintain a cautious approach heading into the new year given that recession risks continue to loom large.

Avoiding a “hard landing” scenario ultimately hinges on the outlook for inflation and accordingly, the path for monetary policy through 2023. Here, we believe that it is premature to expect pause or pivot in the tightening campaign, and that central banks’ battle against inflation is far from complete.

While goods prices have peaked and are rolling over, there is very little sign of a meaningful slowdown in underlying “core” inflation that is instead proving to be more entrenched and sticky in nature, with wages, services inflation, and shelter (rent) costs all in acceleration mode. This will undoubtedly make it more difficult for central banks to reverse course anytime soon. Adding to the uncertain inflation outlook are lingering geopolitical risks and the threat of a spike in both energy and food prices. While investors cheered central banks’ recent moves to dial back the pace of rate hikes, policymakers have reiterated that they need to see more convincing evidence that core inflation is slowing before calling it quits on the tightening cycle.

The implication is that some demand destruction will be needed to bring inflation back down to 2%, which ultimately necessitates much higher interest rates for longer and bodes ill for the economy over a cyclical investment horizon.

Central Banks Have More Work To Do



Source: Bloomberg. As at January 6, 2023.

Investment Strategy

The growing risk of a “hard landing” warrants a defensive stance from an asset allocation perspective. This outlook bodes unfavourably for both stocks and bonds and we are underweight as a result, with an overweight allocation to cash. Meanwhile, the challenging backdrop for traditional asset classes underscores the merits of non-traditional sources of income including private credit and real assets, which offer both stability and enhanced yield in an otherwise erratic financial market environment.

Economic Scenarios

Main Scenario | Deep Recession

Probability **55%**

In our high probability scenario, stubbornly elevated inflation that is proving increasingly entrenched triggers the continuation of aggressive monetary tightening that inevitably sparks a recession. The depth and magnitude of the recession ultimately hinges on how persistent inflation proves to be, and on how much pain policymakers are willing to inflict on the economy in order to bring inflation down to levels deemed acceptable. In this scenario, while goods prices peak and begin to roll over, underlying “core” inflation proves to be more sticky and entrenched, with wages, services inflation, and shelter costs all remaining uncomfortably elevated. Inflation expectations de-anchor and spiral higher, which forces central banks to prioritize tackling inflation in order to restore their inflation-control credibility, regardless of the economic fallout. In response, policymakers tighten monetary policy much more assertively and keep rates in restrictive terrain for longer. Policymakers are unlikely to pause the rate hike cycle until they see convincing evidence that inflation is coming down, which ultimately means that central banks will be hiking interest rates well into economic weakness, making way for a “Deep Recession.”

Scenario 2 | Shallow Recession

Probability **30%**

In this less severe recessionary scenario, central banks continue raising interest rates in order to rein in still-elevated inflation, albeit in smaller increments and to a lesser extent given that long-term inflation expectations remain reasonably anchored. Inflation responds favourably to the demand destruction stemming from cumulative tightening to date and begins to subside more meaningfully in early 2023. Moreover, supply-demand imbalances stemming from both the pandemic and the geopolitical conflict in Europe resolve themselves faster than expected. This allows central banks to temper their hawkishness somewhat and interest rates peak at a lower level versus the “Deep Recession” scenario. Still, interest rates breach restrictive terrain and inadvertently pushes the economy into a recession, albeit a mild one given relatively healthy fundamentals heading into the downturn (stronger balance sheets, excess savings, pent-up demand) that help to limit the damage and the lack of significant financial imbalances that exacerbated past recessions.

Scenario 3 | Stagflation

Probability **15%**

As policymakers are unable to simultaneously achieve their inflation and growth targets, they are forced to choose between the two and opt to prioritize the economy and live with above-target inflation. In this scenario, central banks abandon their tightening campaign prematurely at levels that avoid an outright contraction. Global growth slows to below-potential levels, but global inflation remains elevated and above-target. While markets welcome the less-aggressive policy stance that helps to avert a recession, the risk of a stagflationary episode circa 1970 takes hold in the longer run. Recall that the recovery in the 1970s eventually required even steeper increases in interest rates down the road, which played a prominent role in triggering a string of financial crises and a prolonged period of economic stagnation. The good news is that unlike the 1970s, central banks now have clear mandates for price stability, and have established a credible track record of achieving their inflation targets.

Portfolio Strategy

Matrix of Expected Returns (CAD)

SCENARIOS	DEEP RECESSION	SHALLOW RECESSION	STAGFLATION
PROBABILITY	55%	30%	15%
TRADITIONAL INCOME			
Money Market	4.9%	4.5%	4.4%
Canadian Bonds	-8.6%	-1.9%	-4.8%
NON-TRADITIONAL INCOME			
Diversified Credit	6.0%	7.0%	8.0%
Diversified Real Estate	4.0%	5.0%	9.0%
Infrastructure	5.0%	6.0%	7.0%
Agriculture	5.0%	6.0%	7.0%
TRADITIONAL CAPITAL APPRECIATION			
Canadian Equity Large Cap	-19.5%	1.1%	12.2%
U.S. Equity	-23.1%	-8.1%	0.4%
International Equity	-39.3%	-7.0%	0.4%
Emerging Market Equity	-26.5%	-6.0%	14.4%
NON-TRADITIONAL CAPITAL APPRECIATION			
Private Equity	5.0%	7.5%	12.0%
Liquid Alternatives	0.0%	2.5%	5.0%
CAD/USD	0.75	0.80	0.85

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Portfolio Strategy

Current Strategy¹

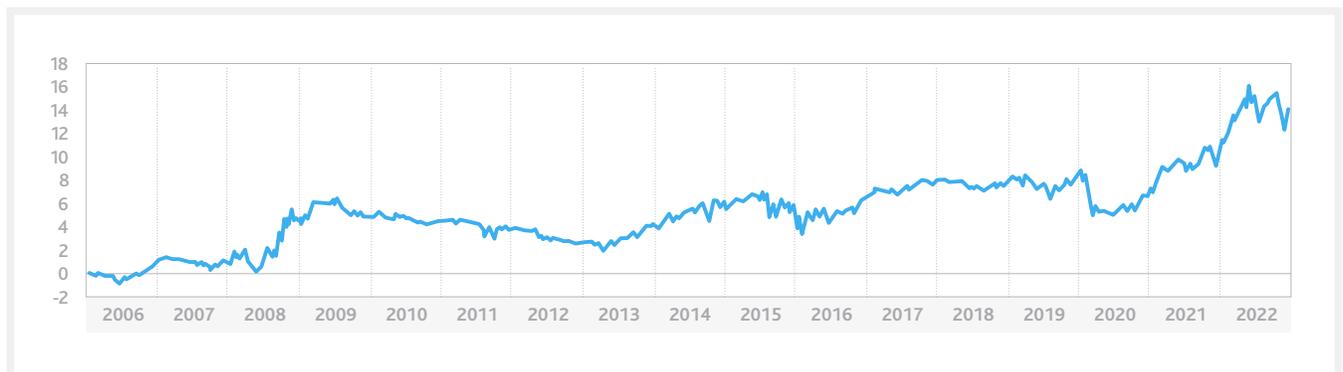
TRADITIONAL AND NON-TRADITIONAL PORTFOLIOS

	MINIMUM	BENCHMARK	MAXIMUM	STRATEGY	+/-
Money Market	0%	5%	30%	30%	+25%
Canadian Bonds	5%	25%	45%	5%	-20%
Canadian Equity Large Cap	10%	20%	40%	20%	0%
U.S. Equity	0%	10%	20%	0%	-10%
International Equity	0%	10%	20%	0%	-10%
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%	60%	+20%
Money Market	0%	5%	30%	30%	+25%
Canadian Bonds	5%	35%	55%	30%	-5%
TRADITIONAL CAPITAL APPRECIATION	40%	60%	80%	40%	-20%
Canadian Equity Large Cap	5%	25%	50%	25%	0%
U.S. Equity	0%	15%	30%	5%	-10%
International Equity	0%	15%	30%	5%	-10%
Emerging Market Equity	0%	5%	15%	5%	0%

Evolution of Value-Added¹



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

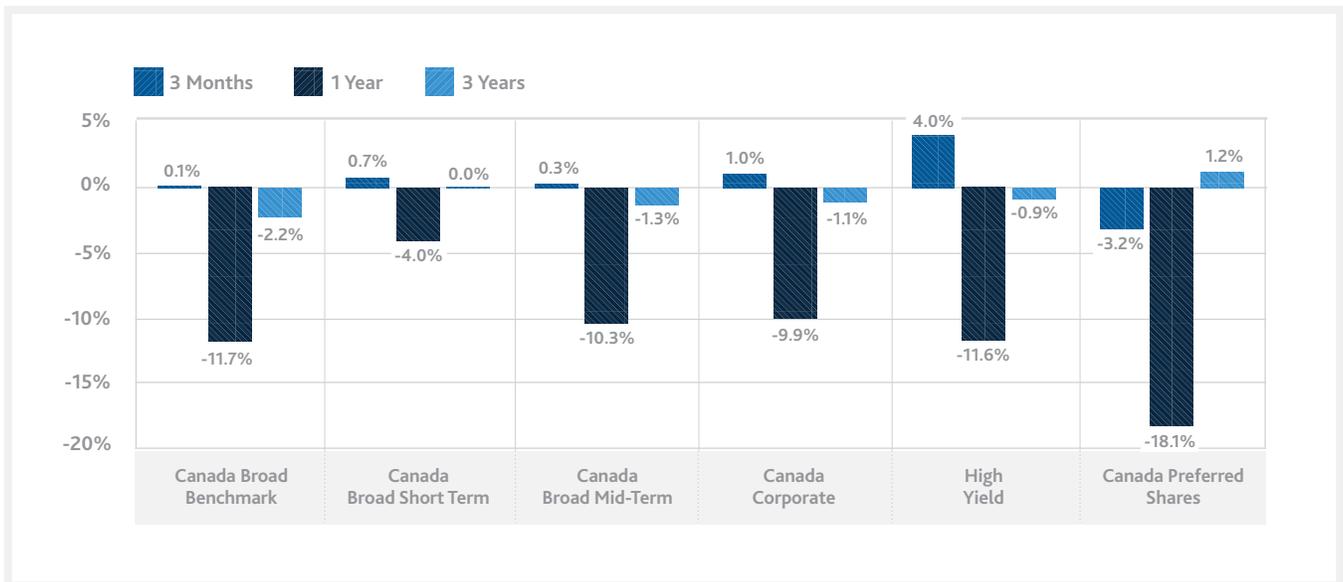
Fixed income markets reversed course and generated positive results in the fourth quarter. Bond yields spiraled lower as investors wagered that central banks are getting a grip on inflation, which stoked bets that policymakers are nearing the end of their tightening campaign.

Central banks sprinted into restrictive terrain in 2022 and have set the stage for further tightening in 2023. The Federal Reserve raised rates by a cumulative 425 basis points to the 4.25%-4.50% range, a 15-year high. Officials repeated that ongoing increases are forthcoming and expect the fed funds rate to end 2023 at 5.0%-5.25%. Chair Powell stated that the Fed is strongly committed to price stability and that their job is far from complete, while saying it will take more convincing evidence that inflation is moving towards its 2% target before shifting their stance. There has been very little progress on the inflation front, with gauges of wage growth recently re-accelerating amid ongoing labour market imbalances.

The Bank of Canada raised interest rates by 400 basis points in 2022, the most aggressive tightening campaign since 1981. While Canada's elevated household debt burden and housing imbalances make the economy more vulnerable to higher rates and could prompt a near-term pause as officials weigh the impacts of cumulative tightening to date, firm and sticky inflation will inevitably lead to higher interest rates given the Bank's resolute focus on a sustainable return of inflation to 2%.

Looking abroad, the European Central Bank jacked up rates at the fastest pace on record in 2022. Rhetoric has been undeniably hawkish, with officials saying that rates still need to rise significantly to levels that are "sufficiently restrictive" given that inflation risks are primarily to the upside. Even the Bank of Japan surprised and took some initial steps towards normalization in late December, widening its yield curve control band to +/- 50 basis points.

Canadian Fixed Income Market Returns | As of December 31, 2022



Source: Fiera Capital Corporation

Investment Strategy

With inflation running hot and central banks swiftly withdrawing support, the path of least resistance for government bond yields should be higher, condemning government bonds to future losses. The market continues to underestimate central banks' resolve in fighting inflation, in our view. We forecast short-term rates to rise by much more than the consensus view in response to inflationary dynamics that prove extremely difficult to bring back in line, while longer-term yields should also push higher on the back of elevated inflation expectations and as central banks take further steps towards shrinking their balance sheets. This unappealing outlook underpins our underweight allocation to traditional fixed income.

Equity Outlook

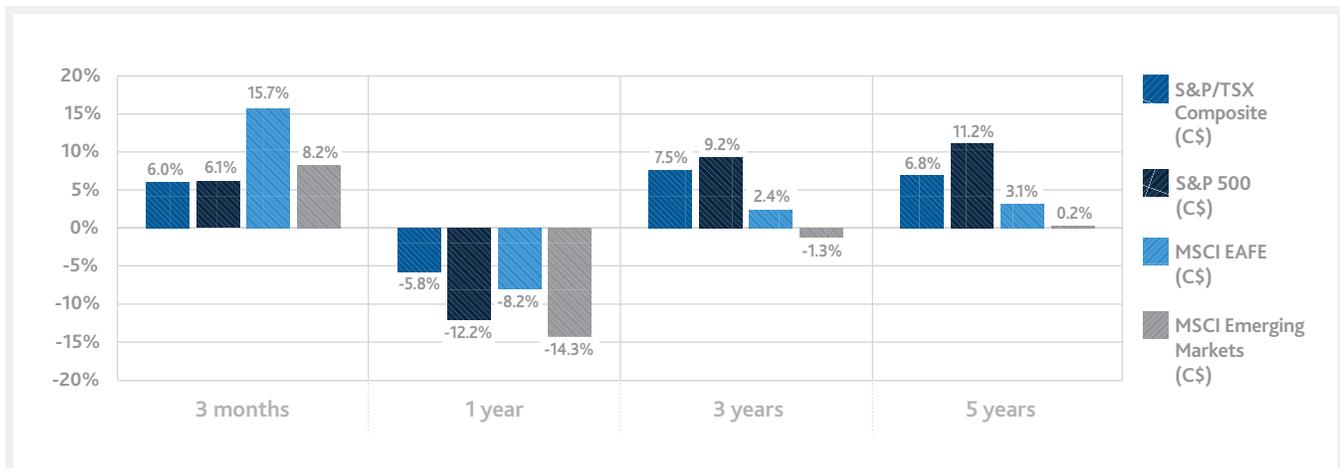
Equity Review

Global equity markets ended a volatile year on a positive note as expectations for a dovish turn in monetary policy sparked a massive relief rally. Investors seem to be pricing in a relatively benign scenario involving a soft landing or a mild recession accompanied by prompt rate cuts, which seems unlikely in our view.

There was very little in the way of fundamental underpinnings that drove the fourth quarter rally. Liquidity continues to dry up at an expeditious pace as central banks remain steadfast in their fight against inflation and push rates higher and reduce their balance sheets. Meanwhile, forward-looking business surveys and leading economic indicators are flagging recession risks, while policymakers' determination to keep tightening policy will sustain that downward pressure on the global growth trajectory. This backdrop should ultimately limit the scope for a sustainable equity market rally. Instead, an improved outlook for equities would hinge on either better liquidity conditions or an accelerating earnings backdrop, neither of which are likely given that central banks are aggressively raising rates and shrinking their balance sheets to restrict demand.

Strictly speaking, should the equity market be disappointed by either hawkish central banks (price-to-earnings multiples) or the economy (earnings), prices are likely to resume their downtrend. The recent bout of multiple expansion remains at odds with limited evidence in terms of progress on the inflation front, with inflation still a far cry from central bank targets. Multiples have pushed higher on hopes for a dovish pivot from central banks and as financial conditions eased in response, something we believe central banks will ultimately push back against. Meanwhile, earnings expectations have not yet adjusted to reflect the looming risk of recession and economic realities are bound to catch up to corporate earnings. Analysts are predicting mid-single digit earnings growth in 2023. Even in a mild recession, earnings contract by 20-25%. With bottom-up earnings expectations still quite lofty, downward revisions are likely.

Equity Market Returns | As of December 31, 2022



Source: Fiera Capital Corporation

Investment Strategy

Taken together, while there is very limited scope for multiple expansion as interest rates rise by more than markets generally expect, the next leg of the bear market rests on our expectations for an economic and earnings recession. In this environment, we remain defensive and maintain an underweight stance on equities over our tactical 12-18-month horizon. Given that our high probability scenario remains one of a "Deep Recession" that would undoubtedly spark another downturn in stocks, we used the latest rally as an opportunity to reduce our equity allocation further to a maximum underweight stance.

Private Markets Outlook

The Case for Private Markets

It was a year of unprecedented and historic losses for public market asset classes, leaving little place to hide in an otherwise erratic financial market environment. While stock markets capped their worst annual declines since the global financial crisis, this was accompanied by double-digit, record-breaking losses in bond markets. Consequently, traditional 60-40 equity-bond portfolios generated some of the worst returns in decades in 2022.

Regrettably, the outlook for public market asset classes remains grim heading into 2023, with rising interest rates and still-elevated inflation coming up against a backdrop of stagnating growth – resulting in sub-par expected returns for public market asset classes in a notoriously volatile trading environment. As such, a traditional portfolio of stocks and bonds may once again prove inadequate in satisfying investor objectives heading into the new year.

While central banks will ultimately prove successful in getting a grip on inflation, there are growing reasons to believe that we are embarking on a period of structurally higher inflation (and accordingly, interest rates) versus the post-2008 era.

These inflationary forces include:

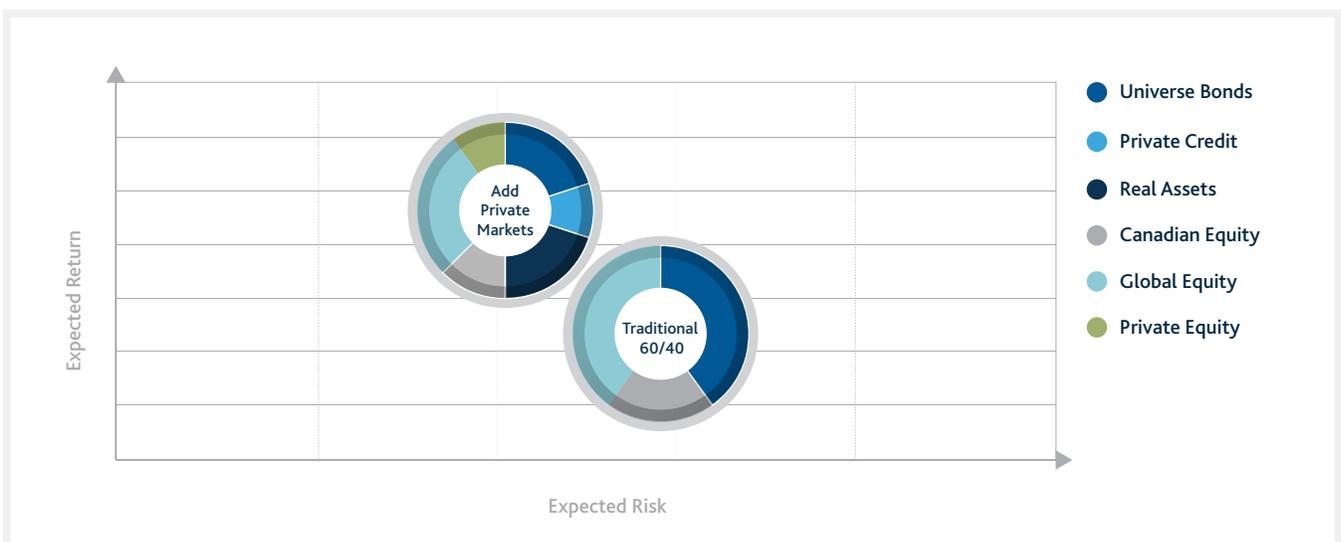
- > **Demographics:** Ageing populations are set to temper labour force growth, keeping wages elevated. The pandemic exacerbated these labour market shortages, with participation still below pre-COVID levels.

- > **Deglobalization:** The disinflationary impulse from globalization is expected to subside given that the COVID crisis and persistent geopolitical tensions has sparked a move towards onshoring supply chains and bringing production closer to home.
- > **Global Climate Change:** The transition towards a lower carbon world implies that governments will be ramping up spending on green energy initiatives, with the potential for supply-demand imbalances in the energy space along the way.
- > **Debts & Deficits:** The buildup in government debt will keep rates above the lower levels that prevailed since the global financial crisis as investors demand compensation for holding long-term government bonds.

While bonds will eventually rebound as inflation subsides and interest rates trend lower, the revival could prove short-lived. Higher structural inflation and an end to the unrelenting collapse in interest rates seen over the last 40 years suggests that bonds could fall short of generating the robust and stable returns investors have grown accustomed to over the last several decades.

This new regime requires an expanded set of investment opportunities in the construction of a properly diversified portfolio, including private credit, real assets, and private equity. These asset classes are uncorrelated with public markets, are less susceptible to wild gyrations in a potentially more volatile market, and have differentiated sensitivities to inflation. As such, the inclusion of private markets strategies could prove instrumental in enhancing a portfolio's risk-adjusted performance.

Portfolio Resiliency & Private Market Strategies



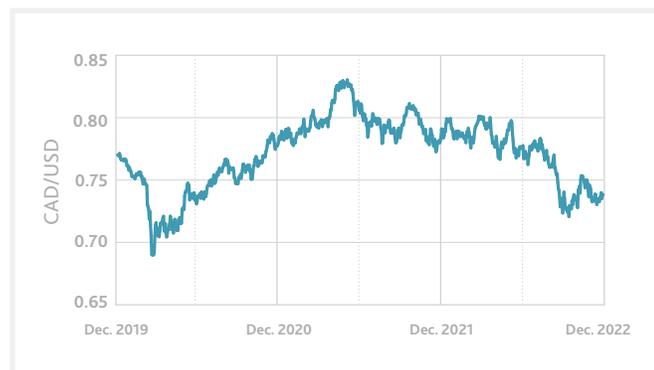
Private Market strategies continue to be instrumental in the construction of a resilient and well-diversified portfolio. Optimizing a portfolio to include private credit, real assets, and private equity may enhance both the performance and durability of a total portfolio, including maximizing the potential for an increase in its reward per unit of risk.

Source: Fiera Capital

For illustrative purposes only.

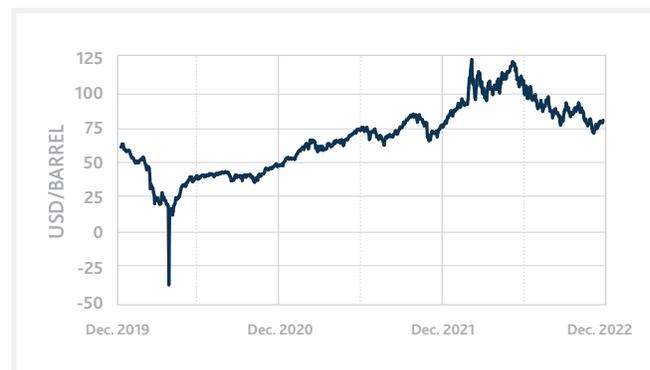
Commodities and Currencies

CAD / USD



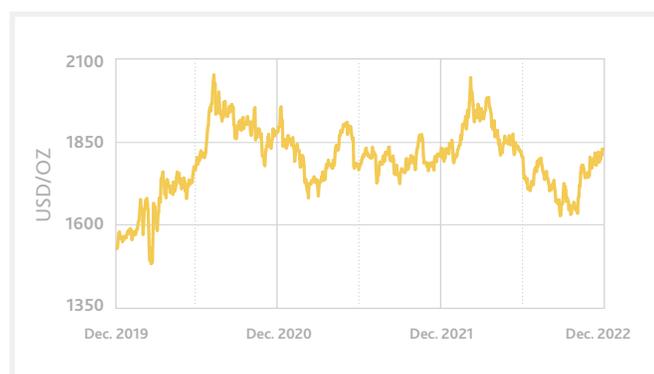
After hitting its highest level on record early in the fourth quarter, the trade-weighted US dollar index reversed course and stumbled lower amid speculation that the Federal Reserve may shift its monetary policy stance in response to signs of cooling inflation. The improved mood in the market also reduced the appeal and flows into the safe haven currency. Meanwhile, the Canadian dollar fluctuated between gains and losses and ended the fourth quarter modestly stronger on the back of a broadly weaker US dollar and a revival in risk appetite towards year-end. Looking forward, favourable rate differentials, elevated risk aversion, and global growth uncertainty may help to place a floor under the counter-cyclical greenback. The Canadian dollar should see some modest strength alongside our expectation for higher crude prices and as the Bank of Canada ultimately keeps up with the Federal Reserve in its tightening campaign in the coming year.

Oil



Crude oil ended the fourth quarter virtually unchanged as global growth expectations faltered and weighed on the outlook for demand, which overshadowed a generally restrained supply backdrop. The oil market remains in a state of flux given uncertainty surrounding the outlook for both demand and supply. While some demand destruction in the West is inevitable in a recessionary environment, the reopening and subsequent rebound in China may help to cushion the blow. Meanwhile, the lingering conflict between Russia and the West has yet to be resolved and remains a threat to global energy supplies, while the European Union embargo and price caps on Russian crude could spark an additional supply shock and push prices higher. Supply-side restraints including low spare capacity and continued production management by OPEC+ and US shale producers may ultimately place a floor under prices, while prolonged underinvestment and regulatory restraint in the energy space has also contributed to supply deficits.

Gold



Gold rallied as signs of cooling inflation sparked hopes for a downshift in the Fed's policy path, which sent treasury yields and the US dollar lower and boosted the appeal of bullion. We forecast gold to trade in a narrow range given some conflicting forces at hand. While bullion's appeal as an inflation hedge and a safe haven given lingering recession risks should underpin prices, the prospect for an aggressive path of interest rate hikes should limit any notable upside for the non-interest-bearing metal.

Copper



Copper soared higher following China's moves to relax virus controls and policymakers' efforts to stimulate the real estate sector and the domestic economy, which drove optimism for a recovery in the top metals-consuming nation. Viewed as a barometer for the global economy, copper is at risk of demand destruction in a recessionary scenario. Longer-term, however, copper stands to benefit in the global effort to scale up in green infrastructure spending and expanding the electric-generation grid.

Forecasts for the Next 12-18 Months

SCENARIOS	DECEMBER 30, 2022	DEEP RECESSION	SHALLOW RECESSION	STAGFLATION
PROBABILITY		55%	30%	15%
GDP GROWTH				
Global	2.10%	1.00%	2.00%	2.50%
Canada	0.50%	-1.00%	0.50%	1.50%
U.S.	0.30%	-2.00%	0.00%	1.00%
INFLATION (HEADLINE Y/Y)				
Canada	6.80%	4.00%	3.25%	4.50%
U.S.	7.10%	4.50%	3.50%	5.50%
SHORT-TERM RATES				
Bank of Canada	4.25%	5.50%	4.75%	4.50%
Federal Reserve	4.50%	6.00%	5.25%	4.75%
10-YEAR RATES				
Canada Government	3.30%	5.00%	4.00%	4.50%
U.S. Government	3.87%	5.00%	4.25%	4.50%
PROFIT ESTIMATES (12 MONTHS FORWARD)				
Canada	1595	1300	1400	1500
U.S.	229	200	225	240
EAFE	161	100	140	155
EM	82	65	75	90
P/E (12 MONTHS FORWARD)				
Canada	12.2X	12.0X	14.0X	14.5X
U.S.	16.7X	15.0X	17.0X	18.5X
EAFE	12.1X	12.0X	14.0X	14.5X
EM	11.7X	11.0X	13.0X	14.0X
CURRENCIES				
CAD/USD	0.74	0.75	0.80	0.85
EUR/USD	1.07	1.00	1.10	1.15
USD/JPY	131.12	135.00	125.00	115.00
COMMODITIES				
Oil (WTI, USD/barrel)	80.26	90.00	110.00	130.00
Gold (USD/oz)	1826.20	2100.00	1900.00	1800.00

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