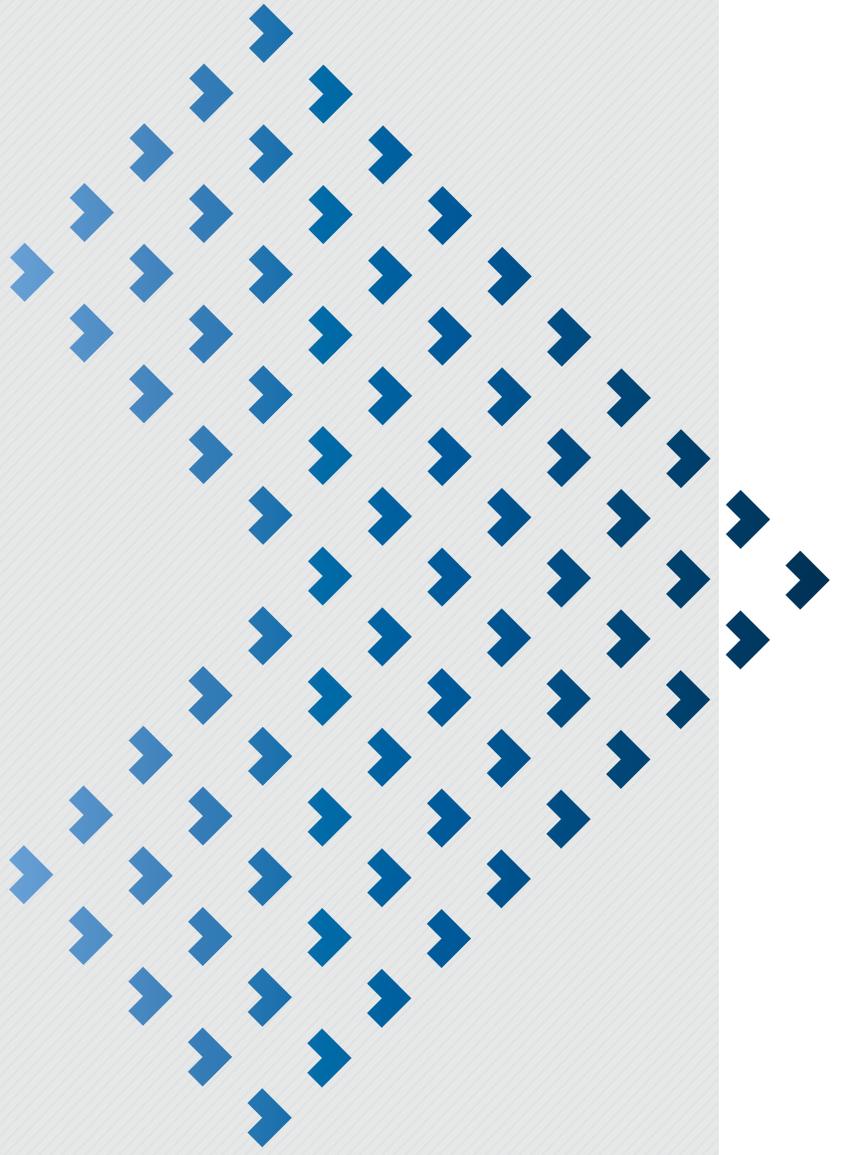




FIERA
CAPITAL
GLOBAL
FINANCIAL
FORECAST
2017-2024



— GLOBAL FINANCIAL FORECAST

Following the 2008 credit crisis, financial markets have provided robust returns for both fixed income and equity investors. Many stock markets breached record levels in 2017, while long-term interest rates reached all-time lows - with many countries even operating with negative rates.

However, as we take a glimpse into the future, several questions are plaguing investor's minds: Will economic growth improve? Will inflationary pressures finally re-emerge? Will central banks continue to intervene? Will money continue to flow into financial assets and support current valuations? In this article, we aim to provide investors with guidance on how to build strategic portfolios that reflect this ever-changing investment landscape.

— OUR METHODOLOGY

Productivity, demographics, politics, central banks and the business cycle are the main drivers of economic growth, inflation, liquidity and valuation. In turn, growth, inflation, liquidity and valuation are the most powerful factors that shape the behaviour of financial markets.



DRIVERS

Drivers are the key elements that impact the economy.

- > Productivity
- > Demographics
- > Politics
- > Central Banks
- > Business Cycle



FACTORS

Factors are the key elements that impact financial market behaviour.

- > Growth
- > Inflation
- > Liquidity
- > Valuation

BONDS	NON-TRADITIONAL INCOME
STOCKS	NON-TRADITIONAL CAPITAL APPRECIATION

MARKET BEHAVIOUR

Market behaviour reflects the impact of factors. Market behaviour influences the economic drivers through the wealth channel.

— AN EVOLVING ECONOMIC AND FINANCIAL MARKET BACKDROP

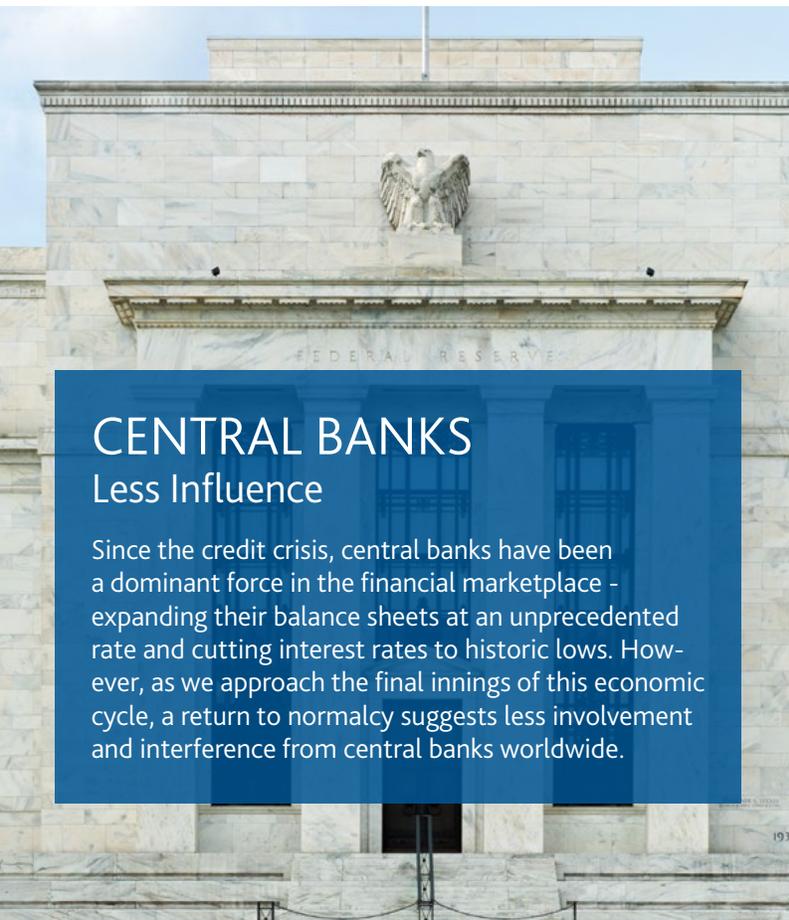
Over the last several years, both the economy and financial markets have been driven by extraordinary actions from central banks, a thirst for yield, falling productivity, and a prolonged expansion characterized by very low inflation. As a result, valuations have improved across the traditional asset classes. However, this landscape was unusual in nature and is unlikely to be repeated in the next 7 years. Instead, we are approaching a turning point where the key drivers of economic growth, inflation, liquidity, and valuation are expected to change - with varying implications for financial markets going forward.

— KEY ECONOMIC DRIVERS: NEXT 7 YEARS



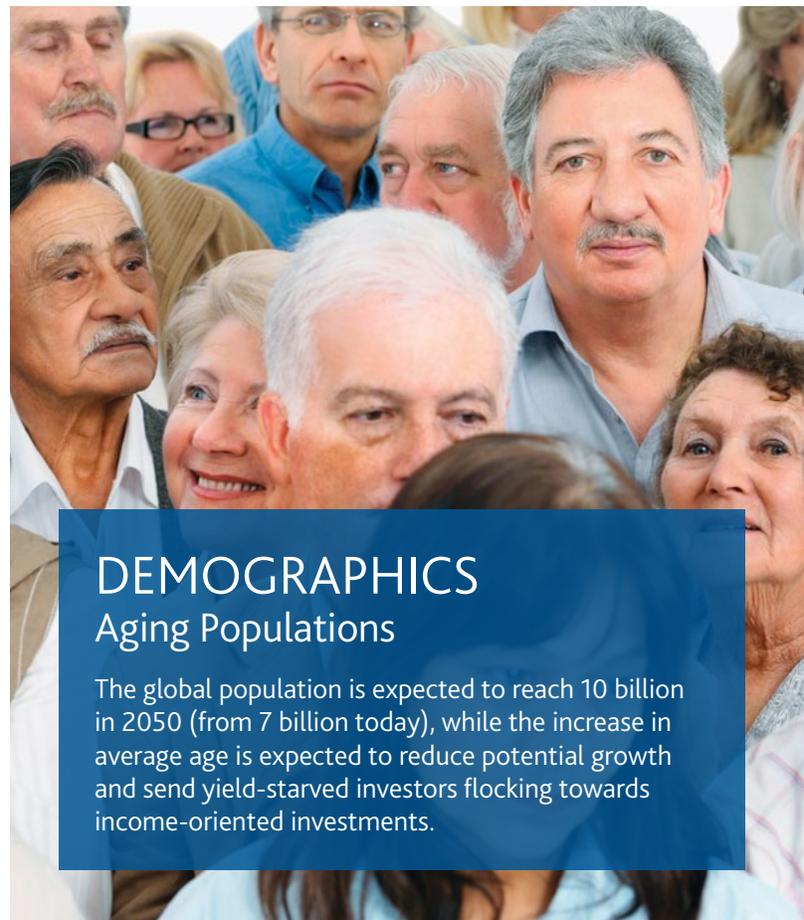
BUSINESS CYCLE A Return to Normalcy

Going back to the 1980s, recessions have only occurred once per decade. While the current business cycle is indeed one of the longest on record, we are approaching its later stages. That being said, we are unlikely to witness a recession in the next few years as central banks remain accommodative overall even as growth conditions improve. However, we do expect a recession and a corresponding recovery to take place in the back half of our 7 year forecast horizon.



CENTRAL BANKS Less Influence

Since the credit crisis, central banks have been a dominant force in the financial marketplace - expanding their balance sheets at an unprecedented rate and cutting interest rates to historic lows. However, as we approach the final innings of this economic cycle, a return to normalcy suggests less involvement and interference from central banks worldwide.

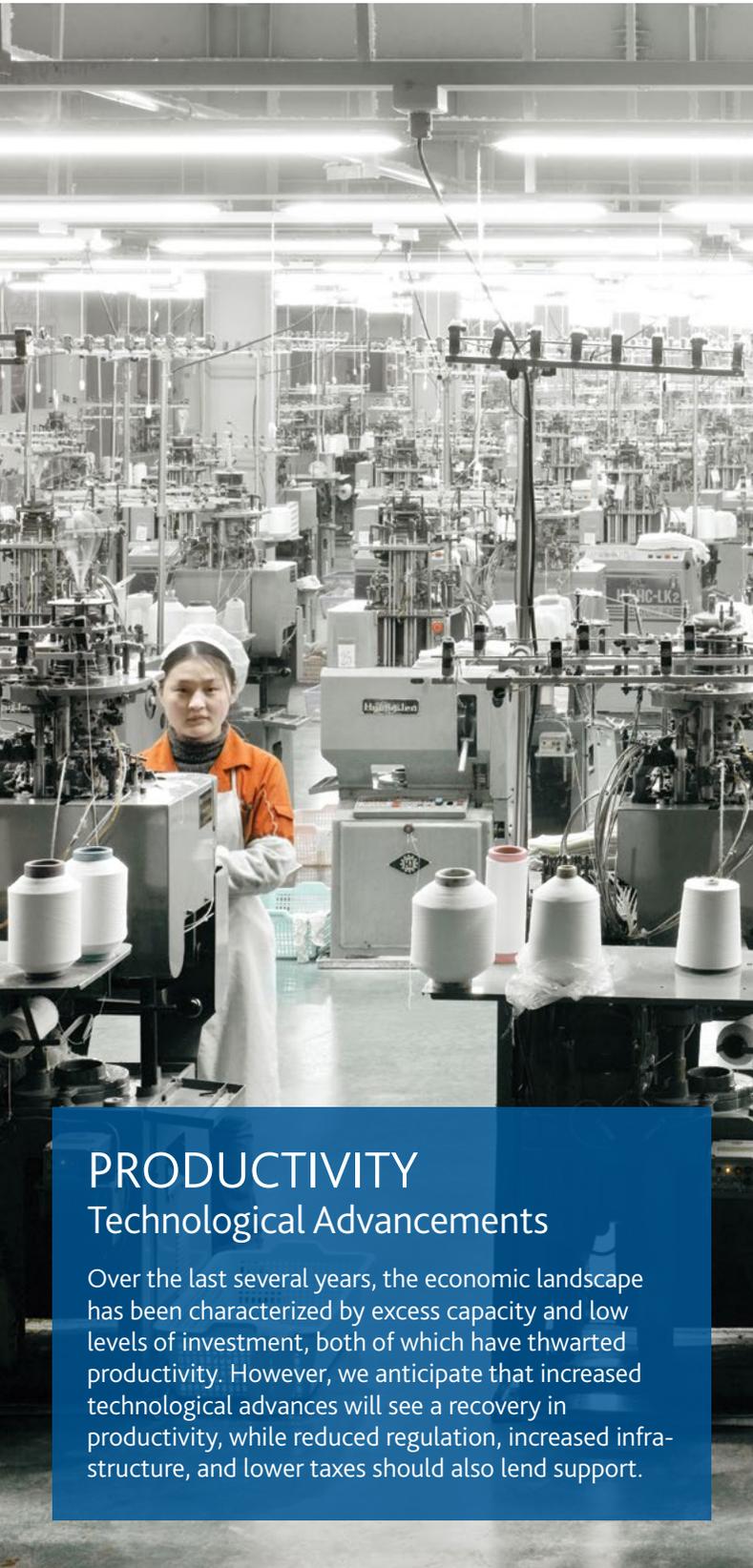


DEMOGRAPHICS Aging Populations

The global population is expected to reach 10 billion in 2050 (from 7 billion today), while the increase in average age is expected to reduce potential growth and send yield-starved investors flocking towards income-oriented investments.

— KEY ECONOMIC DRIVERS: NEXT 7 YEARS

Continued



PRODUCTIVITY

Technological Advancements

Over the last several years, the economic landscape has been characterized by excess capacity and low levels of investment, both of which have thwarted productivity. However, we anticipate that increased technological advances will see a recovery in productivity, while reduced regulation, increased infrastructure, and lower taxes should also lend support.



POLITICS

Political Uncertainty

The political landscape is also undergoing some notable change. Namely, we have witnessed a trend towards protectionism and more nationalistic policies, with a push to reduce government involvement in people's daily lives. Signs of political angst tend to spur periodic episodes of market volatility, with associated implications for both the economy (via confidence) and accordingly, financial markets.

— FINANCIAL MARKET IMPACT

Taken together, we expect more traditional economic patterns to re-emerge after several years in stagnation-mode, with the return to a more normal, cyclical environment that includes modestly improving growth, rising inflation, stabilizing liquidity, and decreasing valuations.

Specifically, we expect inflation to reaccelerate as the economic recovery translates into an outright and self-sustaining expansion, with US growth reaccelerating towards its historical average of 3%. As central bank support will no longer be required, liquidity will be reduced progressively, while valuations are expected to revert back to more normal levels. In this reflationary environment, nominal interest rates will move higher (but remain low by historical standards), with the overnight rate in the US set to peak at 4.0%. Meanwhile, the combination of higher discount rates and stronger growth suggest that price-to-earnings ratios will moderate gradually towards their historic levels around 15x earnings. While we expect equity prices to progressively move higher over the time horizon (with a speed bump before the recession), expected returns will be lower than previous years.

— INVESTMENT IMPLICATIONS

In the environment of lower expected returns, a traditional portfolio of stocks and bonds is unlikely to meet the expectations and requirements of investors going forward. This ultimately reinforces the need for non-traditional assets in the portfolio setting, which are expected to offer an increasingly compelling risk-reward proposition versus their traditional counterparts over the next 7 years.

— MATRIX OF EXPECTED RETURNS

	EXPECTED RETURN	EXPECTED VOLATILITY
TRADITIONAL INCOME		
MONEY MARKET	2.0%	1.5%
SHORT-TERM BONDS	2.0%	4.0%
AGGREGATE BONDS	0.5%	9.0%
CORPORATE BONDS	1.0%	9.5%
LONG-TERM BONDS	-1.0%	13.0%
TAX EFFICIENT BONDS	1.5%	7.0%
HIGH YIELD BONDS	4.0%	11.0%
PREFERRED SHARES	5.0%	13.0%
TRADITIONAL CAPITAL APPRECIATION		
LARGE CAP USA	6.5%	19.0%
LARGE CAP EAFE	5.5%	19.0%
LARGE CAP EMERGING	9.0%	23.0%
LARGE CAP FRONTIER	10.0%	26.0%
MID CAP GLOBAL	7.5%	21.0%
SMALL CAP GLOBAL	8.5%	23.0%
LOW VOLATILITY	5.5%	15.0%
HIGH DIVIDEND GLOBAL	5.5%	16.0%
NON-TRADITIONAL INCOME		
PRIVATE LENDING	7.5%	11.0%
CORE REAL ESTATE	6.5%	11.0%
CORE INFRASTRUCTURE	7.5%	12.0%
CORE AGRICULTURE	10.0%	14.0%
MULTI-STRATEGY INCOME	5.5%	10.0%
CLOSED-END INCOME	6.0%	14.0%
NON-TRADITIONAL CAPITAL APPRECIATION		
MARKET NEUTRAL	7.0%	9.0%
LONG/SHORT EQUITY	8.5%	17.0%
LONG/SHORT CREDIT	7.0%	11.0%
ARBITRAGE	5.0%	4.0%
FUND OF HEDGE FUNDS	6.0%	8.0%
PRIVATE EQUITY	8.5%	17.0%

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