Fiera Investment Outlook and Portfolio Strategy

FIERA CAPITAL

Economic Outlook

Stagflationary Undertones

While risks have subsided as the Trump administration walked back its most aggressive tariff policies, one theme remains clear: We are embarking on a period of stagnating growth and higher inflation. This has created a dilemma for the Federal Reserve as officials weigh the impacts on their dual mandate of full employment and price stability. Following signs of a softening labor market, the central bank lowered interest rates in September and penciled in three more cuts through 2026. However, that has raised the risk of a policy error – particularly given the highly uncertain economic environment. Indeed, it remains to be seen whether the focus should be on the upside risks to inflation or the downside risks to growth. Inflation may still be the greater risk. Inflation has been stubbornly above target for several years and is missing its target by a wider margin than the employment objective. The inflationary impulse of tariffs has added to the upside risks and the passthrough is far from over. As such, while acting pre-emptively to support the labor market, the potential for entrenched inflation and de-anchoring inflation expectations may prove to be a costly mistake.

Scenario Overview & Investment Strategy

- **Stagflation (40%):** Even as trade levies come in at a lesser magnitude than previously thought, the hit to both growth (lower) and inflation (higher) may prompt a cautious approach from the Federal Reserve. Should long-term inflation expectations unhinge to the upside, interest rates would stay higher for longer and result in a more prolonged and pronounced period of economic stagnation.

- **Soft Landing (25%):** Despite the fact that trade policy is far from settled, the consensus appears comfortable in the view that growth will cool just enough to prompt Federal Reserve easing – but without tipping the world's largest economy over into an outright recession.

- **Recession (20%):** The prospect for tariffs to remain in place indefinitely and a full-blown trade war raises the risk of recession. However, the specter of tariff-induced inflation limits the ability of the Federal Reserve to ease policy in a meaningful way to address the hit to growth.

- **Policy Error (15%):** Monetary policy may not be sufficiently restrictive at this time. An environment of above-trend growth and lingering upside risks to inflation suggests that interest rates may revert higher from here.

Taken together, the environment of lingering stagflationary headwinds, uncertain trade dynamics, and the diminished prospect of aggressive monetary policy easing argues for a defensive (underweight) stance on equities. We maintain an underweight allocation to bonds given that central banks are likely to be held hostage by still-elevated (and possibly reaccelerating) inflation. That leaves cash as one of the few places to hide given increased potential for market turbulence. Finally, this tumultuous backdrop underscores the case for private markets strategies – which can prove instrumental in enhancing the overall risk-reward proposition in the strategic asset allocation. Namely, non-traditional sources of income such as private credit and real assets provide a relatively stable return profile, lower volatility, and diversification benefits (uncorrelated to public markets) – while private equity has demonstrated an ability to outperform public equities, even in market downturns, with less volatility.

Economic Scenarios

Main Scenario | Stagflation Probability 40 %

In this high probability scenario, sweeping tariffs across a wide ranging group of trading partners threatens to hobble global growth and push up prices for consumers and businesses. While the full magnitude of tariffs announced by President Trump proved to be less than initially thought, the effective tariff rate in the United States rises to its highest level in nearly a century. From a growth perspective, the damage has likely been done, with the deterioration in sentiment stemming from uncertain trade dynamics curtailing economic activity. While households rein-in spending given the prospect for higher prices and concerns about their financial situations, lingering business angst manifests itself into weaker investment and hiring plans. On the inflation front, recent levies add to the global inflationary impulse. That keeps inflation firmly above central banks' targets at a time when the last mile back to 2% is proving a challenge. Given that long-term inflation expectations remain well-anchored, central banks are able to prioritize supporting the ailing economy and resume monetary policy easing - though not to overly-stimulative levels that risk reigniting price pressures.

Scenario 2 | Soft Landing Probability 25 %

The consensus view for the coming 12-18 months remains one of a "soft landing" – a so-called "goldilocks" scenario of healthy, trendlike growth, moderating pricing pressures towards the 2% target, and multiple rate cuts from central banks. Despite the fact that United States trade policy is far from settled, investors appear comfortable in the view that growth will cool just enough to prompt Federal Reserve easing but without tipping the world's largest economy into an outright recession.

Scenario 3 | Recession Probability 20 %

In this worst-case scenario, the comprehensive and punitive tariff announcements from President Trump remain firmly in place for an extended period of time. A full-blown trade war ensues and permeates across the globe, with sweeping tariffs and retaliatory measures amplifying the upside risks to inflation while raising the risk of recession. With long-term inflation expectations reasonably anchored, growth headwinds outweigh the inflationary impulse and central banks step-in to provide support – though the specter of tariffinduced inflation limits the ability of central banks to ease monetary policy in a meaningful way.

Scenario 4 | Policy Error Probability 15 %

There's a risk the Federal Reserve may be running ahead of itself in attaining its dual mandate of full employment and price stability. Aside from the effects of tariffs that have already come into place, inflation is not convincingly on track to return to the 2% target – particularly given sticky services prices. Meanwhile, demand remains resilient and well-above its trend level (positive output gap). And while the labor market is showing some signs of deterioration, not all of that weakness represents economic slack that less-restrictive monetary policy can ameliorate. Indeed, that softness has been stemming from the supply-side of the economy (versus demand) – with President Trump's immigration and trade policies creating both labor shortages and uncertainty for businesses. As such, there may be limited room to make aggressive rate cuts without inadvertently moving to an inappropriately accommodative monetary policy stance.

Equity Outlook

Equity Review

In the third quarter, the prospect of lower interest rates provided a powerful tailwind for stock markets - with investors seemingly comfortable in the view that growth will cool just enough to prompt Federal Reserve easing but without tipping the world's largest economy over into an outright recession. Adding to that optimism was a series of trade deals between the United States and its trading partners that were met with an upbeat response from investors and a flight into risky assets. That saw global equity markets breach fresh record highs during the quarter.

In local currency terms, the MSCI All Country World rose 7.6%. Regionally, all major benchmarks we track posted impressive quarterly results. The S&P 500 rose 8.1%, while MSCI EAFE gained 4.8% and the MSCI gauge of emerging market stocks rose 10.6%.

Our high probability scenario continues to be one of "stagflation." In that potential outcome, the combination of stagnating growth prospects, stubbornly elevated inflation, and a restrictive Federal Reserve would undoubtedly result in an unfavorable outcome for equities. Indeed, the prospect of tariff-induced inflation is likely to limit the ability of central banks to come to the rescue at a time when the economy is in need of support – putting downward pressure on both equity valuations (the "P" in P/E) and corporate earnings (the "E" in P/E). That translates into a double whammy to stock markets in the coming 12-18 months.

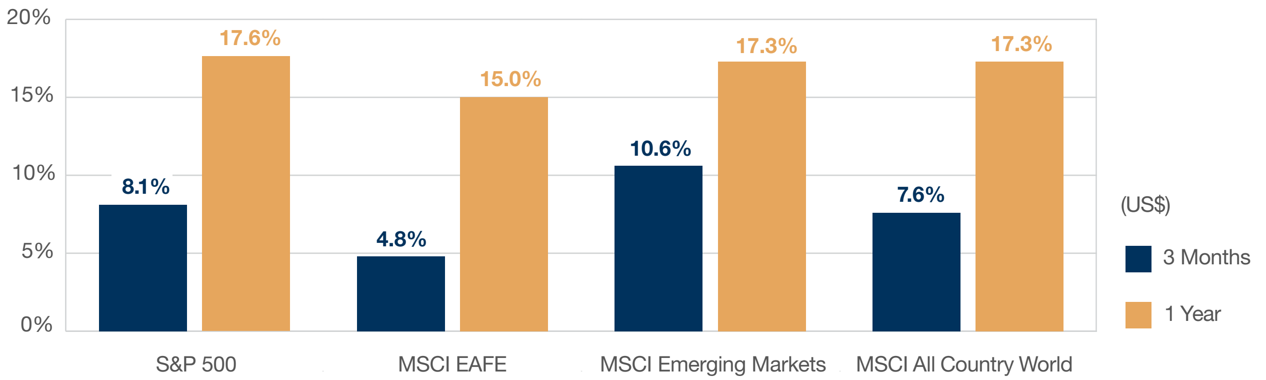
Notably, after the latest rally in stock markets, valuations appear somewhat elevated and particularly in the context of looming macroeconomic headwinds. That may prove to be an obstacle to further equity gains from here. Investors have become somewhat complacent and may be underestimating the tariff impacts on both growth and earnings thus far.

Markets are pricing in multiple rate cuts over the next 12-18 months, which has been a significant driver of equity market strength this year. Should those expectations prove elusive, stock markets would undoubtedly re-price lower in response. Furthermore, forward estimates are envisioning overly optimistic earnings growth over the next 12 months – particularly in light of a stagnating economic outlook.

Investment Strategy

While macroeconomic momentum is deteriorating rapidly as risks build, investors will be closely monitoring prolonged trade negotiations and a plethora of headlines that could create unwanted volatility over the coming months. With a majority of our economic scenarios pointing towards a negative outcome for stock markets, we maintain an underweight stance on equities over our tactical 12-18 month horizon. Barring a dramatic de-escalation in the trade war that sees tariffs return to pre-Liberation Day levels (very unlikely in our view), we expect equities to remain on the defensive.

Equity Market Returns

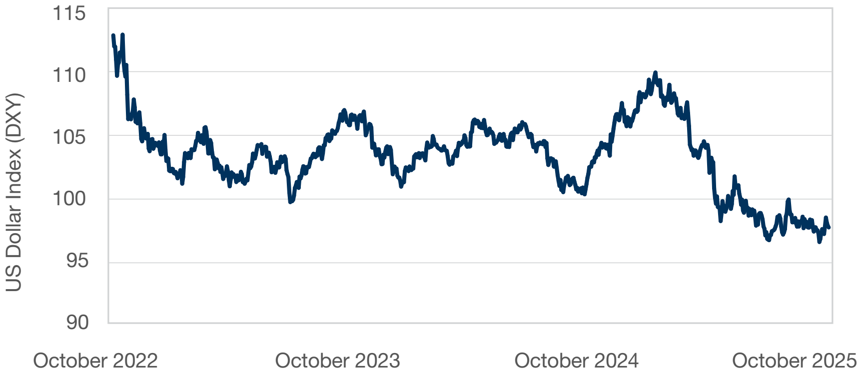


Source: Fiera Capital, as of September 30, 2025.

Past performance is not a guarantee of future results. Inherent in any investment is the potential for loss.

Commodities and Currencies

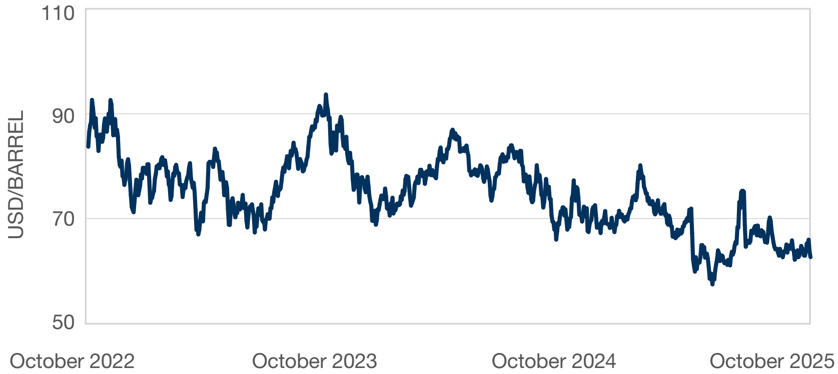
Currency Markets



Source: Bloomberg, as of September 30, 2025.

The US dollar (+0.9%) managed to eke out a modest gain after being whipsawed throughout much of the third quarter. While initially staging a rebound amid signs of progress on trade negotiations between the United States and its trading partners, the dollar lost some momentum towards quarter-end as investors ramped up their wagers for rate cuts from the Federal Reserve and as threats to central bank independence weighed on the currency. The greenback was stronger versus its major trading partners. The Canadian dollar (-2.2%) retreated after investors braced for the Bank of Canada to step off the sidelines and cut interest rates – while the environment of weaker oil prices also pushed the loonie lower. The euro (-0.4%), pound (-2.1%), and yen (-2.6%) also weakened against a broadly stronger US dollar in the third quarter.

Oil



Source: Bloomberg, as of September 30, 2025.

Crude oil (-4.2%) retreated in the third quarter as concerns over excess supply in the market outweighed lingering geopolitical tensions that risk constraining output. Notably, investors were contemplating the looming supply glut stemming from the OPEC alliance's aim to restore idled capacity. Adding to oversupply concerns, oil stockpiles in the United States rose by the most in several weeks at the end of September. Corroborating that narrative, the International Energy Agency has predicted that there will be a record surplus this year, with OPEC+ supply hikes prompting global output to run ahead of demand.

Gold

Source: Bloomberg, as of September 30, 2025.

Gold (+16.1%) breached a fresh record high in the third quarter as expectations cemented around rate cuts from the Federal Reserve. What's more, unnerved investors flocked to the safety of bullion given unrelenting risks on the trade and policy front. On the latter, President Trump's attacks on the Federal Reserve added to perceived risks around central bank independence. An erratic geopolitical backdrop and central bank buying also boosted prices over the last three months – while the quarterly decline in US treasury yields increased the allure of the non-interest-bearing precious metal.

Copper

Source: Bloomberg, as of September 30, 2025.

Copper (-3.4%) retreated as data from China (a top consumer of the red metal) showed factory activity extended its decline into a sixth month – the longest slump since 2019. However, prices rebounded towards quarter-end and traded just below a 16-month high as supply disruptions and some dollar weakness supported prices of the red metal at the end of the quarter.

Forecasts for the Next 12-18 Months

Scenarios		Sept. 30, 2025	Stagflation	Soft Landing	Recession	Policy Error
	Probability		40%	25%	20%	15%
GDP Growth	Global	3.00%	2.50%	3.00%	2.00%	3.50%
	U.S.	1.80%	1.50%	2.00%	-1.00%	2.50%
	Canada	1.10%	1.00%	1.50%	-1.50%	2.00%
Inflation (Headline Y/Y)	U.S.	2.90%	3.50%	2.50%	2.00%	4.00%
	Canada	1.90%	3.00%	2.25%	2.00%	3.25%
Short-term Rates	Federal Reserve	4.25%	4.00%	3.50%	2.50%	4.75%
	Bank of Canada	2.50%	2.50%	2.25%	2.00%	3.00%
10-year Rates	U.S. Government	4.15%	4.50%	4.00%	3.00%	5.25%
	Canada Government	3.18%	3.50%	3.00%	2.75%	4.00%
Profit Estimates (12 Months Forward)	U.S.	293	270	290	250	295
	Canada	1777	1700	1800	1450	1850
	EAFE	167	160	170	140	180
	EM	88	85	90	70	95
P/E (12 Months Forward)	U.S.	22.8X	22.0X	23.5X	18.5X	19.5X
	Canada	16.9X	16.5X	18.0X	14.0X	15.0X
	EAFE	16.6X	16.0X	17.5X	13.0X	14.0X
	EM	15.4X	15.0X	16.0X	11.0X	12.0X
Currencies	EUR/USD	1.17	1.10	1.15	1.00	1.05
	CAD/USD	0.72	0.70	0.72	0.65	0.75
Commodities	Oil (WTI, USD/barrel)	62.37	65.00	70.00	50.00	75.00
	Gold (USD/oz)	3840.80	3800.00	3400.00	4000.00	3000.00

Source: Fiera Capital, as of September 30, 2025.

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