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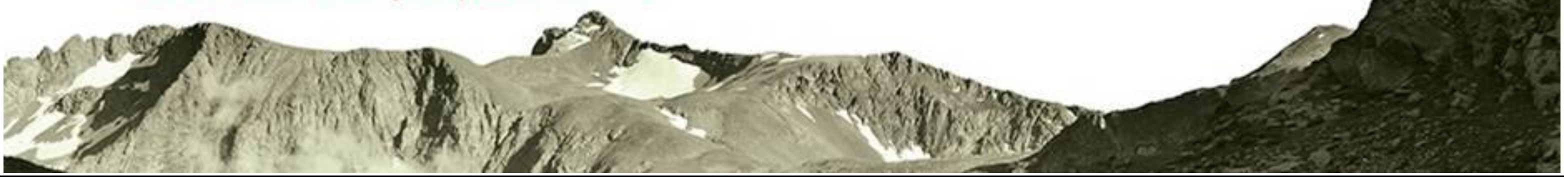

ECONOMIC OUTLOOK – SPRING 2022

NATIONAL BANK FINANCIAL
WEALTH MANAGEMENT

Hello and welcome to May, a welcome relief from the month of April which was difficult on almost all financial assets, to say the least.

1ST QUARTER RECAP

Trends from the end of 2021 continued and the issues raised in our January letter carried over into the new year
- higher interest rates putting pressure on bond prices
- high-valuation stocks coming back down to earth
- volatility will return

This was indeed a dire start to the year for bonds with Canada's main "Universe Bond" index down 10% this year as I write this review. This was due to bond interest rates jumping 1.3%, from 1.5% on January 1st to 2.8%, as measured by the benchmark 10-year U.S. Treasury bond. Reminder: bond prices drop when rates rise to compensate new buyers of bonds issued at lower rates.

Global equities ("stocks") for their part, did as expected when rattled by war and unsettled by persistent inflation, dropping 5,3% in the 1st quarter and over 8% YTD. Value stocks protected us relative to high growth (and higher priced) stocks.

Our blended index with a balanced asset allocation of 55% stocks and 45% bonds was down -3.50% in the first quarter and an additional 3%+ in April to date.

OUTLOOK

The case for stocks is a balancing act as always. On the plus side, the lessening impact of Covid on the economy is allowing more people to find jobs, companies to increase production, salaries and profits. On the flip side, supply-chain bottlenecks, inflation and political instability are hindering operations and dampening spirits. Our strategists' main scenario is still not recessionary but global GDP growth estimates were lowered by about 1% during the quarter.

Normally in such times of uncertainty, you can rely on bonds to hold up or rise in price when stocks are dropping. Unfortunately, bonds have their own issues as artificially low rates of the past few years are facing a quick upward adjustment to catch up with high inflation. Rest assured, this should be a temporary issue.

Although current headline inflation numbers are in the 5 to 8% range, we don't expect rates to go so high. 10-year government bond rates are now at 2,8% in the United States somewhat appropriate for inflation expectations around 3.5% for the next 5 years and 2.5% the following 5.

So, bonds could therefore soon stabilize and stop hurting your portfolio, and even better, resume their role as diversifiers in tough times. Mathematically speaking, a rebound in bond returns or "reversion to the mean" is guaranteed. For example, let's say you bought a

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NEW VIDEO CONTENT

Have a look at our new content in the "Articles & Videos" section of our website for

- Our chief strategist Stéfane Marion's *Economic Impact* videoclip on current financial affairs (link)
- *coming soon* Our video on tricks to avoid losing your federal Old-age security pension "OAS" (link)

5-year bond last year for 3%, expecting a total return of 15%. If since then it is down 3%, then your bond will need to catch up to deliver your entire guaranteed return plus any decline – delivering roughly 4.5% annually for the remaining four years.

In summary, the economic outlook remains positive but not as rosy which should allow bonds and stocks to stabilize or rise.

POSITIONING

With bonds now offering higher yields, portfolio cash allocations were shifted to longer corporate bond maturities offering rates higher than inflation for the first time in years. Equity investments were maintained near or below your allocation target and focused on quality as always. Durable and growing companies at a reasonable price will win the day.

Although we can never predict the outcome of the next quarter, war adds an extra dose of uncertainty. One assurance I can give you is that every component of your portfolio is purchased and reviewed regularly with the main criteria of profitability, sustainability and attractive valuation. Through time, this has proven to work well in good times and bad.

In closing, I reiterate my view that even quality investments may cause discomfort in tough times but patience is rewarded. On that note, I thank you for your trust and invite you to give me a call to discuss further.

We wish you a great spring and look forward to speaking with you.

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