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Q3 2022 Review

NATIONAL BANK FINANCIAL
WEALTH MANAGEMENT

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Outlook for Q4 2022

The volatility that has plagued financial markets for some time now did not abate during the third quarter, quite the contrary. Indeed, after a spectacular equity rebound in the first half of the quarter, a hawkish speech by the chair of the Federal Reserve abruptly put an end to investors' renewed optimism. In the face of this umpteenth increase in hawkishness from the central bank, expectations of rate hikes rose sharply, despite the slowdown in inflation observed during the summer months. In the end, both stocks and bonds posted quarterly losses, but Canadian assets once again clearly outperformed their peers.

Initially, this summer's market optimism was based on the prospect of a rapid deceleration in inflation that would have allowed central banks to slow - or even halt - their monetary policy tightening in the near future. The first part of the equation does indeed seem to be materializing, with a significant drop in gasoline prices helping to ease inflationary pressures. In addition, prices for a wide range of commodities have fallen significantly in recent months, including wheat, corn, lumber and industrial metals. Finally, the normalization of global supply chains continues to run its course.

However, when it comes to an upcoming central bank pivot, market expectations have proven to be overly optimistic. In order to ensure a definitive victory over inflation, the Fed brought its monetary policy into restrictive territory in September and indicated that additional rate hikes would follow in the coming months. In doing so, the shape of the yield curve - a leading indicator from the bond market - has begun to send signals of increased recession risks. At the same time, the Conference Board's leading economic indicator has crossed a threshold that has historically preceded every U.S. recession in the past five decades.

In the end, even if a more favourable economic scenario cannot be ruled out definitely, we cannot simply ignore the call for caution that a growing number of leading indicators are currently sending us. Moreover, it now seems clear that a pivot by central banks back to an accommodative monetary policy stance, an essential condition for a sustained market recovery, will at best take some time and at worst require a recession.

As a result, during the month of August, we reduced the weight of equities within our tactical asset allocation for a second consecutive quarter. Thus, our more defensive positioning has a slight underweight in stocks and bonds in favour of cash, which is currently offering its best yield in 14 years in Canada - the flip side of increasingly restrictive monetary policies. In terms of geographic allocation, we maintain our preference for the Canadian equity market, which benefits from an attractive level of valuation and a sector allocation better suited to current conditions. On the other hand, we remain less optimistic about the EAFE region and more specifically Europe, where the difficult energy situation further compromises growth prospects.

Quarterly Highlights

Market Total Returns

Asset Classes	Sep	Q3	YTD
Cash (S&P Canada T-bill)	**0,3%**	**0,5%**	**0,7%**
Bonds (Canada Broad Universe)	**-0,7%**	**0,5%**	**-11,5%**
Federal Government	-0,4%	0,2%	-9,1%
Corporate	-0,8%	0,4%	-10,6%
Corporate BBB	-0,8%	0,4%	-10,9%
S&P/TSX Preferred shares	-6,9%	-6,1%	-15,3%
U.S. Corporate (US$)	-5,3%	-5,1%	-18,3%
U.S. High Yield (US$)	-4,0%	-0,7%	-14,6%
World Equities (MSCI ACWI US$)	**-9,5%**	**-6,7%**	**-25,3%**
S&P/TSX	-4,3%	-1,4%	-11,1%
S&P/TSX Small Caps	-7,1%	-2,5%	-16,3%
S&P 500 (US$)	-9,2%	-4,9%	-23,9%
Russell 2000 (US$)	-9,6%	-2,2%	-25,1%
MSCI EAFE (US$)	-9,3%	-9,3%	-26,8%
MSCI Emerging Markets (US$)	-11,7%	-11,4%	-26,9%
Commodities (GSCI US$)	**-7,8%**	**-10,3%**	**21,8%**
WTI Oil (US$/barrel)	-11,2%	-25,7%	6,3%
Gold (US$/oz)	-2,6%	-7,4%	-8,1%
Copper (US$/tonne)	-2,1%	-6,9%	-21,1%
Forex (US$ Index DXY)	**3,1%**	**7,1%**	**16,8%**
USD per EUR	-2,6%	-6,3%	-13,9%
JPY per USD	4,2%	6,6%	25,8%
CAD per USD	5,3%	7,4%	9,4%

CIO Office (data via Refinitiv)

Fixed Income

- The Canadian bond universe declined only slightly in September, providing some protection against significant equity market declines. The 3rd quarter was also the 1st positive quarter for bonds since the beginning of 2022.
- South of the border, corporate bonds had their worst monthly performance since March 2020.

Equities

- September was a very difficult month for equity markets around the world. Higher than expected U.S. inflation and aggressive rate-hike projections from the Fed contributed to significant deterioration in investor sentiment. The S&P 500 finished with monthly losses of 9.2% and is now back in bear market territory.
- Once again, Canadian equities clearly outperformed the rest of the world, posting a monthly decline of 4.3% and -1.4% for the quarter. The EAFE region and emerging markets experienced much larger drawdowns.

FX & Commodities

- Oil prices recorded their fourth consecutive monthly loss. For the quarter, the decline is more than 25%, so that the price per barrel is now well below where it was before the Russian invasion of Ukraine.
- On the currency front, the U.S. dollar has once again experienced a spectacular appreciation in a context where the Fed is tightening monetary policy faster than elsewhere in the world. The Canadian dollar, which is often positively correlated with the price of oil, depreciated significantly over the month against the greenback.

Fixed Income | Index Plus

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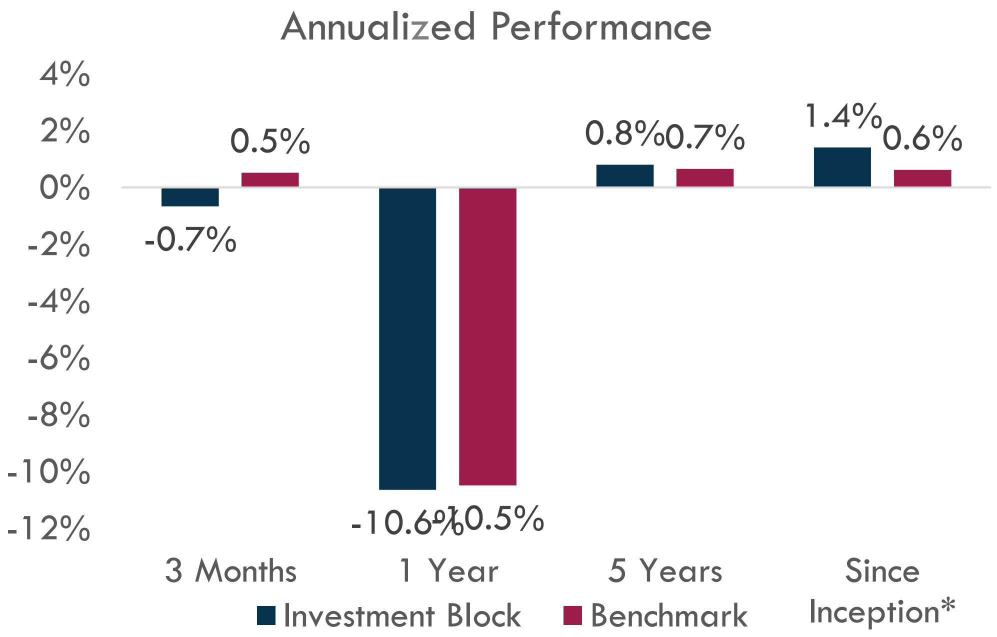
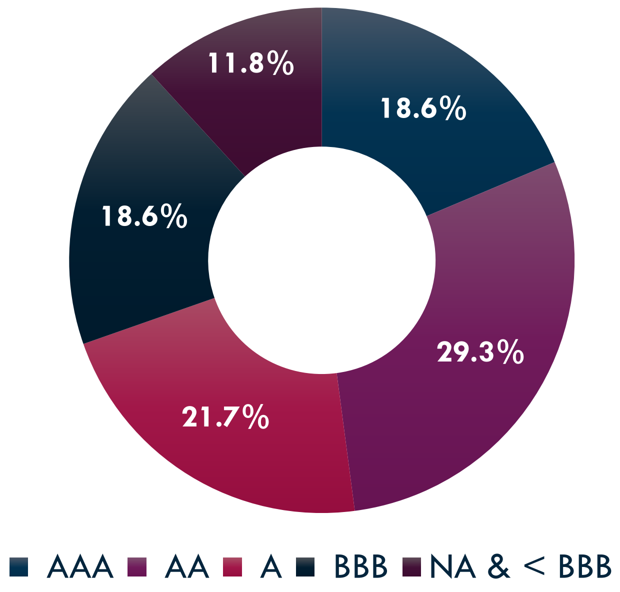
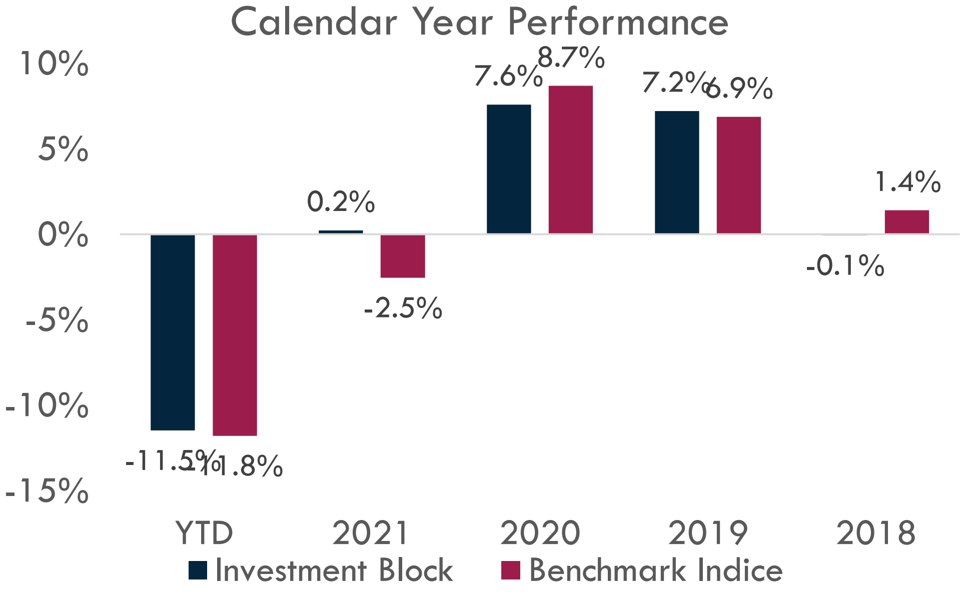
Your Fixed Income investments are divided to diversify, produce steady income, and protect your money. Cost is managed to ensure you retain as much of your income as possible.





Target Asset Allocation

iShares High Quality Canadian Bond	25.5%
Horizons Active Corporate Bond	20.3%
iShares Core Canadian Universe Bond	20.1%
PIMCO Monthly Income ETF	14.7%
BMO Mid Provincial Bond	10.1%
Horizons Active Preferred Share ETF	9.4%



Comments

Shorter duration than the benchmark.

Overweight in quality corporate bonds.

Small portion invested in preferred equity to increase income and protect against inflation.

Benchmark

FTSE Canada Universe Bond

Morningstar Peer Group Category

Canadian Fixed Income

Canadian Equity | Income Blend

Your Canadian equity holdings are comprised of a blend of hand selected and broad-based investments, designed to achieve the ideal combination of wealth preservation, long term investment results, and cost control.

Target Asset Allocation

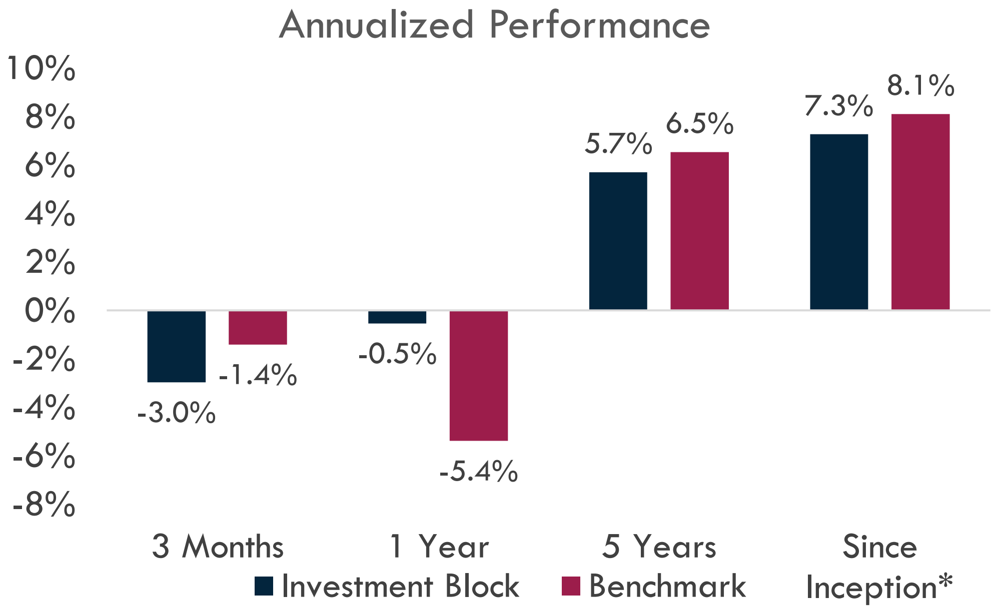
NBI Equity Income (Montrusco Bolton)	25.5%
iShares S&P/TSX High Dividend Composite Index	24.0%
Mackenzie Canadian Dividend	20.5%
Fidelity Canadian Core Equity	15.2%
BMO S&P/TSX Composite Index	14.8%

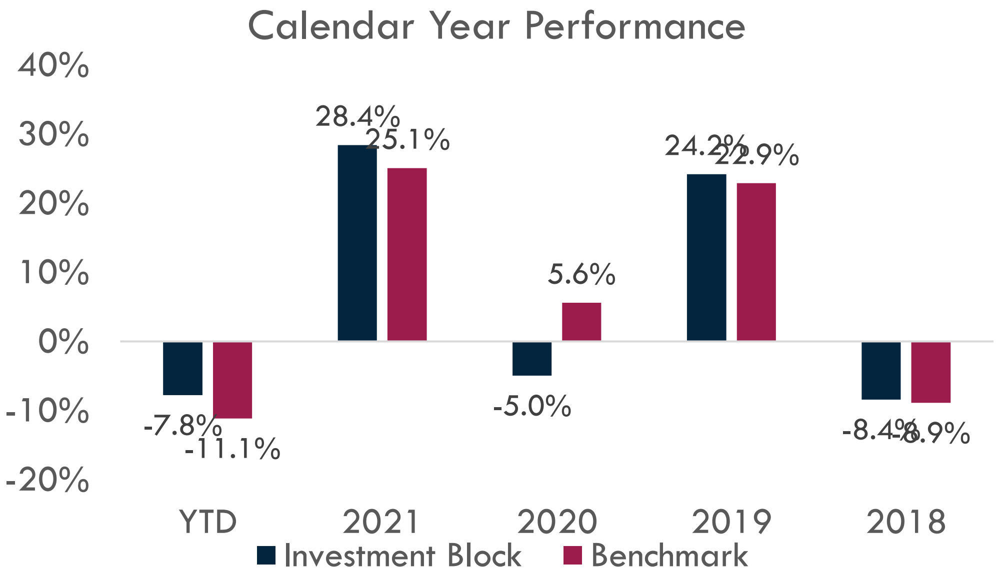
Benchmark

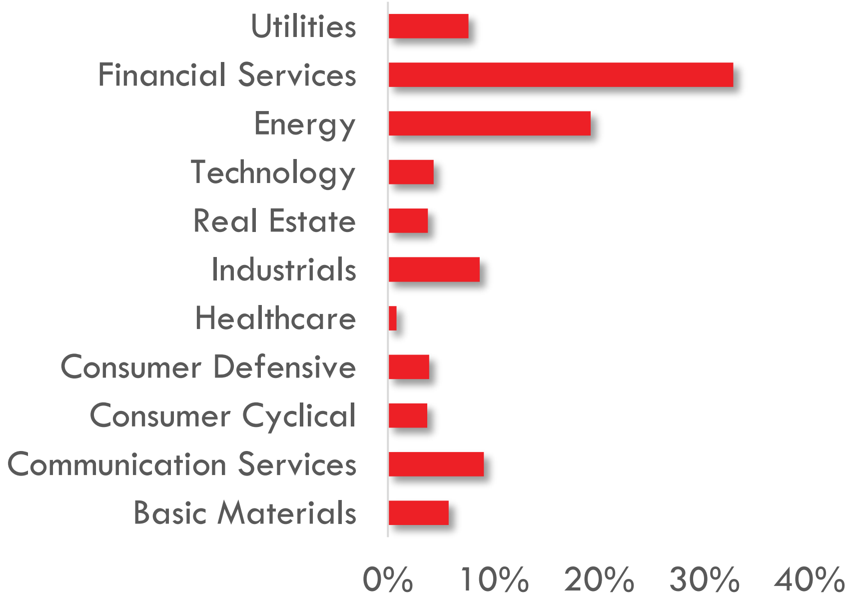
S&P/TSX Composite TR

Morningstar Peer Group Category

Canadian Equity







Comments

Overweight in large cap stocks compared to the index.

Bias for value and dividend-paying stocks.

Overweight equities from defensive sectors.

Global Equity | Pure Active

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Your Global equity holdings are invested by managers with proven track record of identifying high-quality investments from around the world. You will benefit from global growth through hand selected investments.

Target Asset Allocation

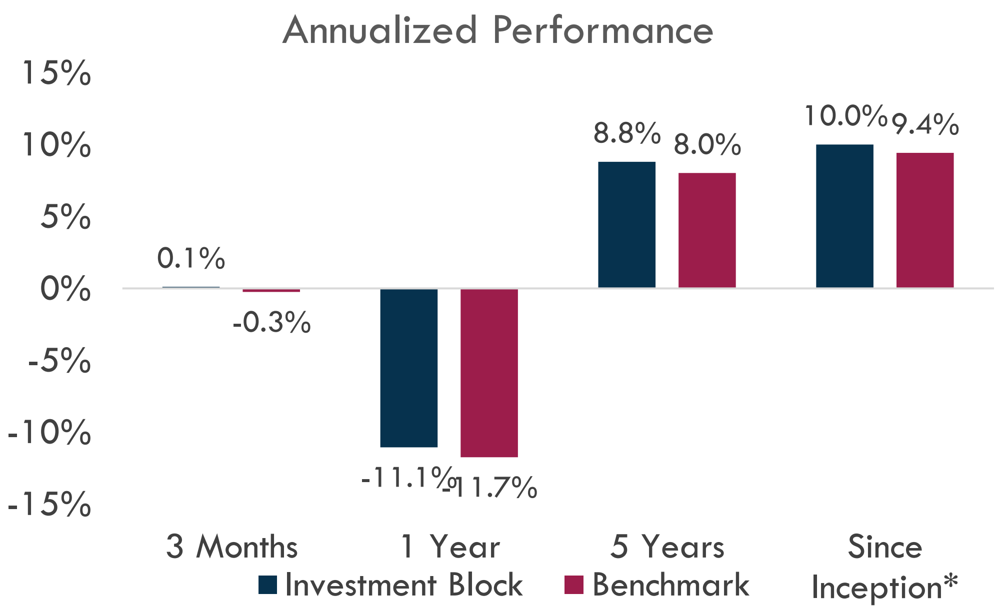
NBI US High Conviction Equity (Fiera)	40.8%
Mackenzie Global Dividend	29.8%
Fidelity American Core Equity	15.0%
Fidelity International High Quality Index ETF	14.5%

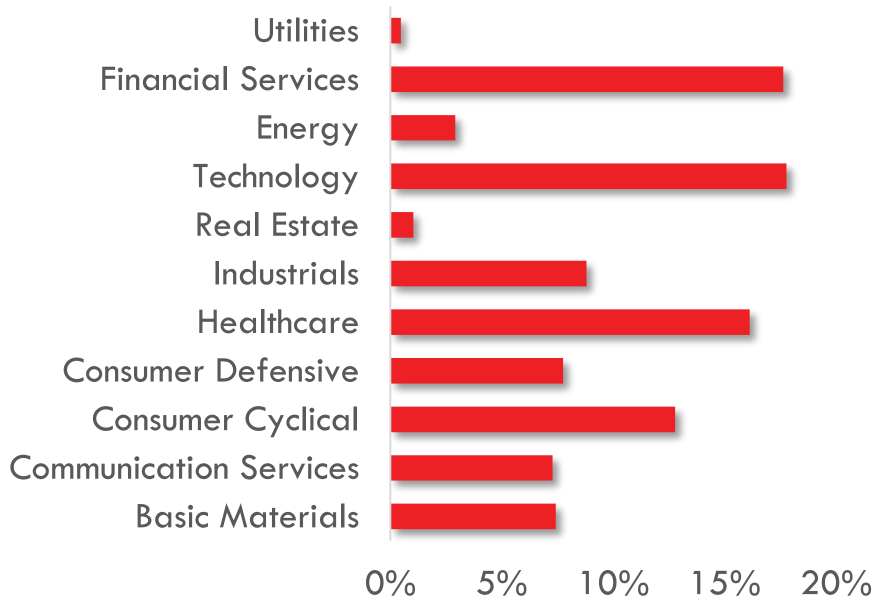
Benchmark

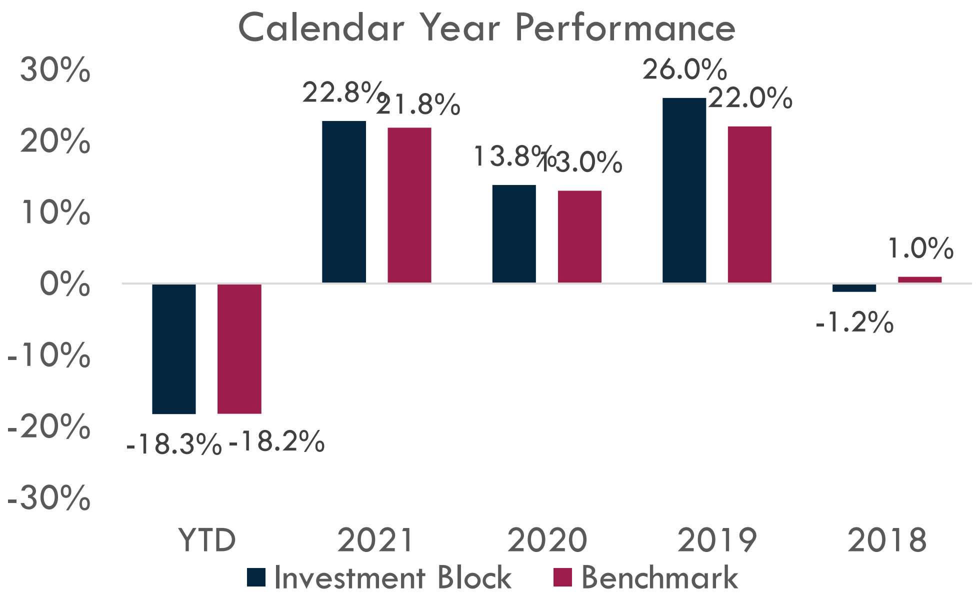
NBF Global Equity Benchmark

Morningstar Peer Group Category

Global Equity







Comments

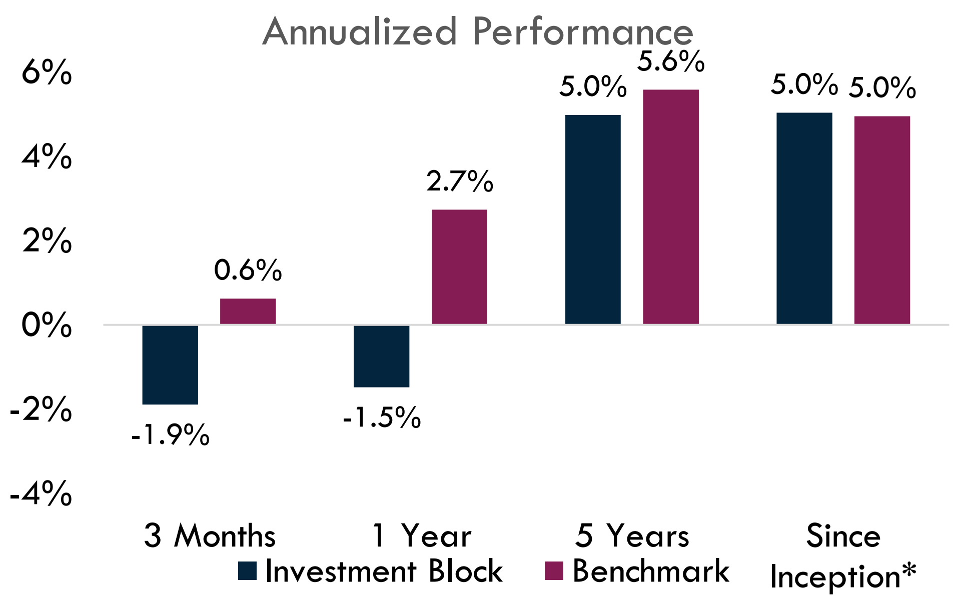
The market cap is similar to the benchmark.

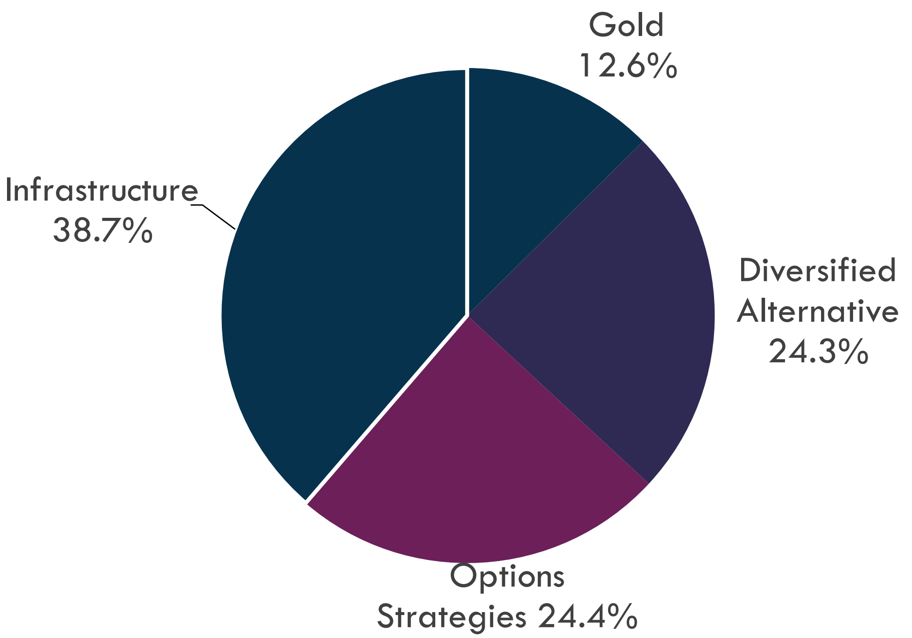
Overweight position in quality and growth at reasonable price (GARP) stocks.

Overweight in cyclical companies and underweight in interest rate sensitive companies.

Alternatives | Blend

Your holdings in Alternatives will be invested in a combination of publicly traded infrastructure as well as non-traditional strategies, designed to reduce fluctuation within your portfolio and to generate income.



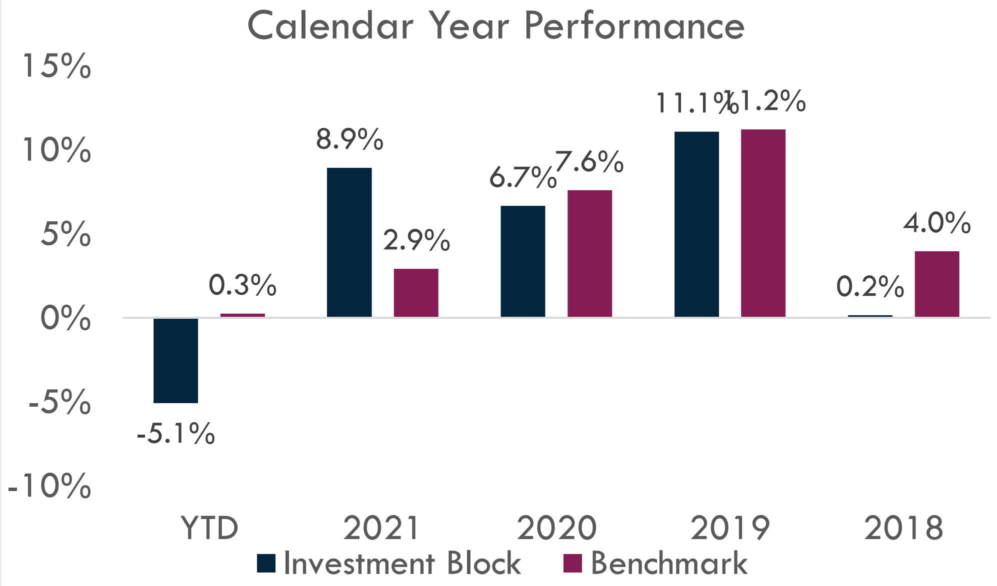


Target Asset Allocation

NBI Real Assets Pooled Fund	26.0%
Mackenzie Diversified Alternatives	24.3%
Dynamic Premium Yield	13.0%
iShares Global Infrastructure Index ETF	12.7%
iShares Gold Bullion	12.6%
Structured Payoff Strategies Pooled Fund	11.5%

Benchmark

NBF Alternative Benchmark



Comments

Diversified mix of alternative strategies to smooth out returns and reduce portfolio volatility.

Gold provides protection against inflation and act as insurance policy in market downturns.

Infrastructure and real assets hold a mix of private and listed investments such as real estate, farmlands, timberlands and infrastructure assets that provide regular cash flows, protect against inflation and reduce your portfolio overall risk.

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The NBF Balanced Benchmark consists of 5% FTSE TMX 91 day T-Bill, 40% FTSE TMX Universe Bond, 18% S&P TSX Composite Total Return, 18% S&P 500 $CAD Total Return, 9% MSCI EAFE $CAD Total Return, and 10% of the NBF Alternative benchmark. The NBF Alternative Benchmark consists of 33% HFRX Equal Weighted Strategies Index ($CAD), 33% S&P Global Infrastructure Index ($CAD), and 33% Gold ($CAD). The NBF Global Equity Benchmark consists of 66% S&P 500 $CAD and 33% MSCI EAFE $CAD.