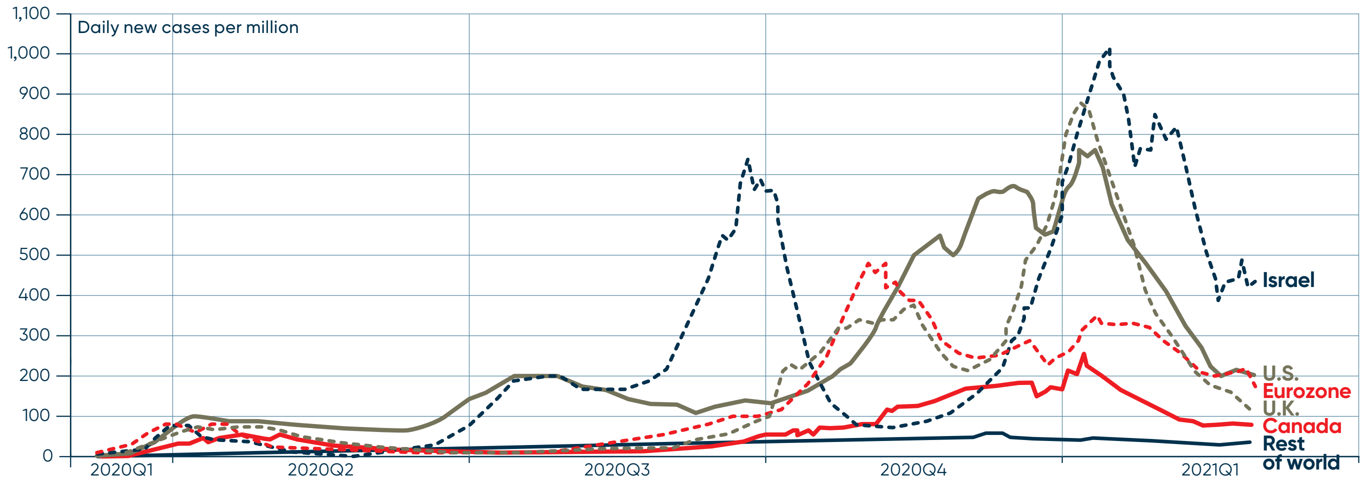
March 2021
Building your financial future

Investment Strategy

World

The global economic recovery is accelerating. Apart from the improvement in the health situation, this revival can also be explained by the sizable fiscal aid provided by the world's governments. This support has gone way beyond the efforts made following the crisis of 2008, and its positive effects are already felt in several sectors. On the monetary policy front, having managed the initial shock with brio, central bankers must now focus on accompanying the recovery. Aware of high indebtedness and criticized for having tightened monetary policy too soon in the last economic cycle, they are likely to err on the side of caution this time around. This is likely to be reflected in an environment of very low real rates, which will help governments and businesses deal with higher debt. Continuing monetary accommodation in an environment of expected robust growth is likely to firm up inflation. Heartened by recent developments, we are revising up our forecast of global growth in 2021 from 5.5% to 6.0%.

World: Abatement of the pandemic
Daily new cases per million population, by region, 7-day moving average



NBF Economics and Strategy (data from https://coronavirus.jhu.edu/map.html)

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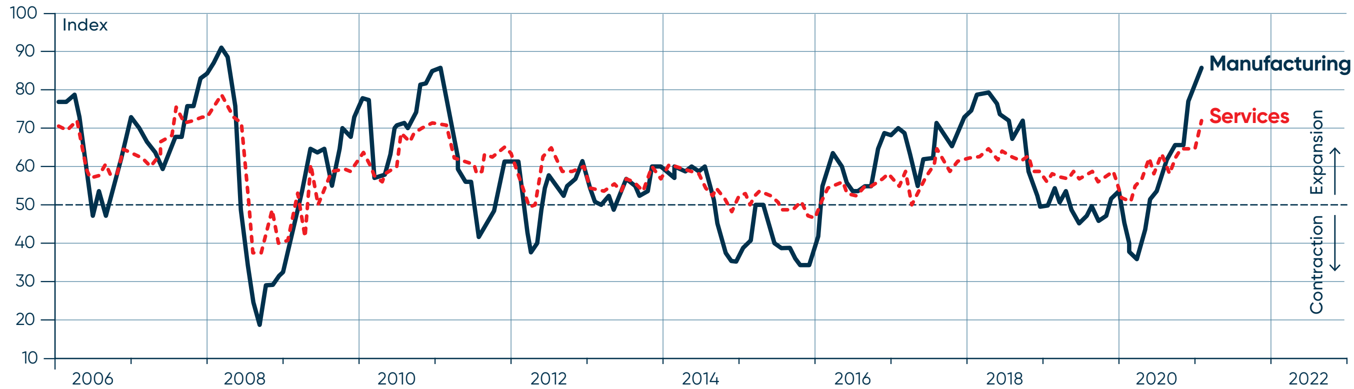
NATIONAL BANK FINANCIAL
WEALTH MANAGEMENT

United States

It must be acknowledged that the U.S. economy has been recovering from the pandemic shock much faster than expected. In the fourth quarter, real GDP was only 2.5% below the pre-crisis level. And judging by the latest data, the remaining shortfall is likely to be closed faster than we forecast last month. With business investment, household consumption and the housing market all doing better than anticipated, we have substantially revised up our forecast for first-quarter GDP growth. In further good news, there is reason to believe that massive fiscal stimulus from Washington will support continuation of this impressive rebound throughout the year. We now expect an expansion of 6.6% this year (from 5.2%) and 3.8% next year. In keeping with this outlook for growth, our inflation forecast remains higher than those of the consensus and the Fed. The private sector, already struggling to meet demand, faces a substantial rise in input costs. We think these pressures will reach consumers sooner or later. That said, we expect that inflation will remain in a range acceptable to the Fed at least through 2022.

U.S.: Will cost increases be passed on to consumers?
ISM PMI, prices paid



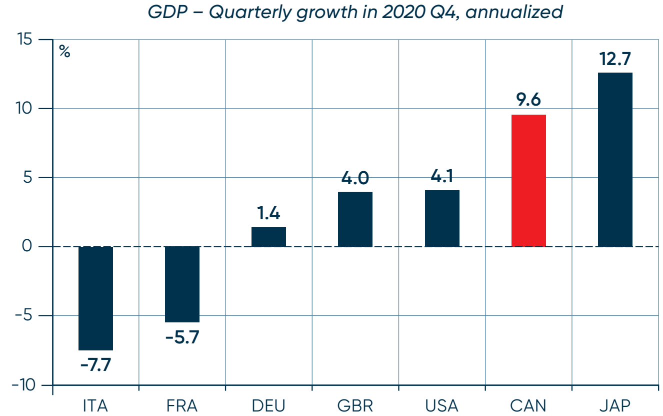
NBF Economics and Strategy (data from Refintiv)

Canada

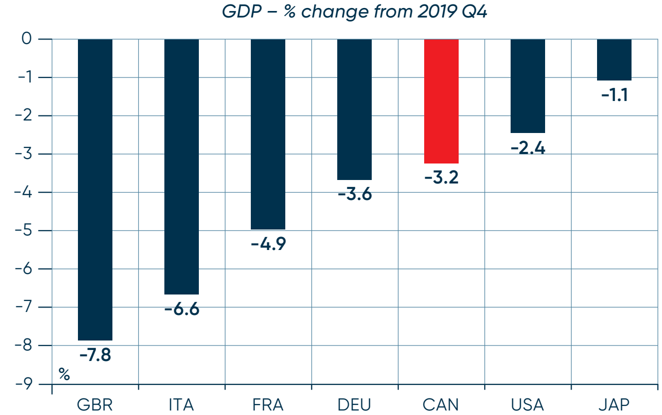
With the release of national accounts for the last quarter of 2020, we have an overall picture of Canadian GDP for the year. Its contraction of 5.4% far exceeds the previous record of 3.2% in 1982. More importantly, we now have a much better view of the pace of recovery in the fourth quarter, and the numbers are impressive in the circumstances: growth at an annual rate of 9.6%, the second strongest among G7 countries, bringing the Canadian economy within 3.2% of its output in the fourth quarter of 2019. Consumption in services remains depressed due to public-health measures currently in place, but things can change fast when the pandemic comes under control. The Canadian economy will also benefit indirectly from the huge U.S. fiscal stimulus program. The surge of raw material prices, meanwhile, augurs notable improvement in Canada's terms of trade in first quarter 2021, which could mean record corporate profits. This bodes well for hiring and investment. We are raising our outlook for 2021 GDP growth in Canada to 5.4% (from 4.2%).

Canada: An enviable recovery

GDP – Quarterly growth in 2020 Q4, annualized



GDP – % change from 2019 Q4



NBF Economics and Strategy (data via Refinitiv)

Investment Strategy

This time last year, equity markets where near the depth of one of their most rapid declines in decades. Only twelve months later, we now find ourselves in a very different—and thankfully improved—economic position. More specifically, the first quarter of 2021 saw risk assets reach new heights on the back of a historic vaccination drive and the passage of one of the largest fiscal stimulus bills in modern times south of the border. These developments bolstered the performance of more cyclical assets and equity sectors, all while driving interest rates higher and bond prices lower.

Overall, the turn of events is in line with our base-case scenario. While there is still much work to be done on the vaccination front and especially here at home in Canada, many developed economies have demonstrated their ability to get the vaccine distributed to the most-at-risk population quickly and effectively. In fact, the U.S. recently surpassed the 2 million daily administered dose mark and, at the time of writing, had given over 35 doses per 100 people. This is indeed good news for economic reasons given how important our neighbours to the south are for global growth; more importantly, however, it signals the beginning of the end for this pandemic, which we are all eager to leave for the history books. Besides the public-health crisis, we expected policy makers to maintain accommodative monetary and fiscal conditions. While the size of the stimulus package passed by the Biden administration in mid-March came as a positive surprise, the Fed made sure to keep any indications of potential monetary tightening distant, as expected.

Under these circumstances, our portfolio strategy, which favoured equities over fixed-income assets throughout the first quarter, proved favourable. Back in December, we mentioned our intention to gradually increase our equity exposure over the course of 2021 as opportunities arise. Accordingly, we raised our allocation to stocks and lowered our exposure to bonds in the midst of a short-lived pullback at the start of February. Geographically, we added to our overweight to emerging markets, which are more cyclical, and reduced our allocation to U.S. equities, which are more defensive in nature due to the predominance of their technology heavyweights.

Looking ahead, we can reasonably expect the coronavirus vaccination campaign to gather pace. As such, the virus may become a secondary issue by early summer in the U.S. and late summer elsewhere. Ultimately, this would allow for a gradual and permanent reopening of most economies leading to a rise in consumer sentiment and a sharp recovery in the service sector. With the American president having successfully pushed through his party's stimulus bill, his attention will likely turn towards an infrastructure plan and, possibly, tax reform. While the latter of these is sure to make markets apprehensive, the former has the potential to introduce even greater levels of federal spending. Altogether, while we anticipate equity leadership to remain volatile, these events should provide cyclicals with an edge over more defensive assets as bond yields rise modestly and the U.S. dollar weakens.

Of course, risks to our baseline scenario remain, and although we view these as low-probability events, they must be monitored closely. For instance, vaccination could prove less effective due to the growth in new virus variants. What's more, the Biden administration could yet surprise us with a tougher protectionist stance or an egregious tax bill. Finally, heightened interest rate volatility driven by fears of an eventual inflation fight by the Federal Reserve cannot be ruled out, although we should expect the central bank to use its tools to limit the upside in bond yields under such conditions. In any case, the balance of risks justifies some optimism for the coming quarters. While markets may remain nervous as roadblocks appear on the road ahead, we at least seem to be heading in the right direction towards a post-pandemic world.

MODEL PORTFOLIOS

Income Portfolio

Investor Profile: You want to preserve your capital or establish a source of periodic income to finance ongoing expenses. You do not find the stock market very attractive because of its volatility, but you are not against the idea of investing a small part of your portfolio in stocks, mainly to counteract the effects of inflation. Your tolerance for risk is low.

Asset Class	Minimum/ Maximum	Benchmark	Recommended Weighting	Change from Previous Quarter
Cash equivalents	0% to 20%	5.0%	4.0%	0.0%
Fixed income (duration: 5.75 years)[1]	60% to 100%	70.0%	66.0%	-1.5%
Canadian equities	0% to 30%	8.0%	10.0%	1.0%
U.S. equities		8.0%	10.0%	0.5%
Foreign equities		4.0%	5.0%	0.0%
Alternative investments[2]	0% to 20%	5.0%	5.0%	0.0%

Conservative Portfolio

Investor Profile: On the whole, you want your portfolio invested in fixed-income securities. Although you can tolerate limited volatility to ensure that your assets will grow, you prefer having a portfolio consisting mainly of fixed-income investments for reasons of stability. Your tolerance for risk is low.

Asset Class	Minimum/ Maximum	Benchmark	Recommended Weighting	Change from Previous Quarter
Cash equivalents	0% to 20%	5.0%	3.5%	0.0%
Fixed income (duration: 5.75 years)[1]	45% to 80%	55.0%	51.0%	-1.5%
Canadian equities	20% to 45%	14.0%	16.0%	1.0%
U.S. equities		14.0%	16.0%	0.5%
Foreign equities		7.0%	8.5%	0.0%
Alternative investments[2]	0% to 20%	5.0%	5.0%	0.0%

Balanced Portfolio

Investor Profile: You give equal importance to achieving growth in your investments and receiving income. You can tolerate moderate changes in market value to ensure growth, but you prefer having a mix of fixed-income investments and equities for reasons of stability.

Asset Class	Minimum/ Maximum	Benchmark	Recommended Weighting	Change from Previous Quarter
Cash equivalents	0% to 20%	5.0%	3.0%	0.0%
Fixed income (duration: 5.75 years)[1]	30% to 65%	40.0%	35.0%	-2.0%
Canadian equities	30% to 65%	18.0%	20.5%	1.5%
U.S. equities		18.0%	20.5%	0.5%
Foreign equities		9.0%	11.0%	0.0%
Alternative investments[2]	0% to 25%	10.0%	10.0%	0.0%

Growth Portfolio

Investor Profile: Your main goal is capital growth. Although you can tolerate greater volatility in order to increase the value of your assets, you are not prepared to invest your entire portfolio in stocks. Your tolerance for risk is high.

Asset Class	Minimum/ Maximum	Benchmark	Recommended Weighting	Change from Previous Quarter
Cash equivalents	0% to 25%	5.0%	3.0%	0.0%
Fixed income (duration: 5.75 years)[1]	20% to 45%	30.0%	25.0%	-2.5%
Canadian equities	40% to 75%	22.0%	24.5%	1.5%
U.S. equities		22.0%	24.5%	1.0%
Foreign equities		11.0%	13.0%	0.0%
Alternative investments[2]	0% to 25%	10.0%	10.0%	0.0%

Maximum Growth Portfolio

Investor Profile: You want to maximize the eventual return on your capital by investing all or most of your portfolio in the stock market. In doing so, you accept higher volatility of your investment returns in the hope that these returns will ultimately be higher. Your tolerance for risk is high.

Asset Class	Minimum/ Maximum	Benchmark	Recommended Weighting	Change from Previous Quarter
Cash equivalents	0% to 30%	5.0%	3.0%	0.0%
Fixed income (duration: 5.75 years)[1]	0% to 30%	15.0%	10.0%	-2.5%
Canadian equities	55% to 100%	26.0%	28.5%	1.5%
U.S. equities		26.0%	28.5%	1.0%
Foreign equities		13.0%	15.0%	0.0%
Alternative investments[2]	0% to 30%	15.0%	15.0%	0.0%

1 FTSE TMX Canada Universe Index
2 Includes hedge funds, global infrastructure and gold

FORECAST

	2019	2020	2021 (Forecast)	2022 (Forecast)
Gross Domestic Product %				
Canada	1.9	-5.4	5.4	4.0
U.S.	2.2	-3.5	6.6	3.8
Inflation %				
Canada	1.9	0.7	2.5	2.3
U.S.	1.8	1.3	2.7	2.4

	June 2021		December 2021		December 2022	
	Canada	U.S.	Canada	U.S.	Canada	U.S.
Rate %						
Short-term rates (T-bills, 91-day)	0.15	0.10	0.20	0.10	0.30	0.15
10-year bond yields	1.55	1.70	1.75	1.90	2.15	2.25
30-year bond yields	1.90	2.35	2.00	2.50	2.20	2.70
Canadian Dollar	US $0.80		US $0.83		US $0.82	