



## WEEKEND READING

Shedding the light on what's happening - our world - our finances - our times

### Happy Holiday

With the pending holidays, we're stuffing reader's stockings with extra reading.

### Monthly Fixed Income Monitor Dec 2025-Jan 2026 National Bank

#### Monthly Fixed Income Monitor

Economics and Strategy



NATIONAL BANK  
OF CANADA  
CAPITAL MARKETS

December 2025 – January 2026

#### Forecast Summary

By Taylor Schleich, Ethan Currie & Warren Lovely

- It's a 50-50 North American rate outlook. No, that's not us having little conviction in our forecasts. That's a reference to the likely changes in policy rates at the Federal Reserve and Bank of Canada in 2026. For nearly the past decade the two central banks have moved directionally together but that's due to change next year. While we see the Fed keeping its easing cycle going early in 2026, the Bank of Canada will remain on hold before starting to *increase* its policy rate in the fall.
- At the Federal Reserve, policymakers continue to contend with pressures on both sides of their dual mandate. On one side, we're tying a bow on the fifth straight year of inflation running above target. Tariffs, strong economic growth and expansionary fiscal policy all continue to pose upside risks. However, this seems to be less of a concern to a (small) majority of FOMC participants. Instead, it's downside risks to the labour market that's really in the driver's seat right now. In coming months, we may see the sluggish pace of hiring continue. That will keep an already-anxious committee on edge and may lead to 50 basis points of easing in the first half of the year. However, we expect further softness to be short-lived. Fiscal policy will support growth next year and lead to a firming in job market conditions. Even for the most dovish FOMC participants, it will be difficult to justify easing in the second half of the year.
- After easing in late October, Bank of Canada Governor Macklem declared the policy rate was at "about the right level" to keep inflation contained and support the economy through its structural adjustment. At the time, many doubted the sustainability of the BoC's move to sidelines. However, data then started to improve materially, making it clear that the Bank's patient stance would be reaffirmed in December and that the easing cycle was likely over. No data release punctuated that better than the November *LFS*. In contrast to an expected hiring pullback, an impressive pace of job growth continued which helped push the jobless rate down to a 16-month low.
- In the blink of an eye, investor attitudes about the health of the Canadian economy shifted. The modest easing bias that had persisted even after the BoC went on hold, quickly turned into a tightening bias. However, in the Bank's final decision of the year, they did not validate growing expectations for hikes. Instead, Governor Macklem pointed to weak domestic demand in Q3, subdued economy-wide hiring plans and judged that, even after recent data, their outlook hasn't changed much. It's not hard to see why the Bank didn't throw in the towel on its earlier, more bearish economic assessment. Some hard data has looked great, but other data, including soft data, still signal there are problems ahead. To us, the BoC is right in taking time to have more confidence in the direction of the economy. And while we are somewhat skeptical at how strong the rebound in some data has been (i.e., hiring), we agree that the worst is behind the Canadian economy. Our macro outlook is consistent with rate hikes beginning in the fall, a quarter earlier than we'd previously envisioned.

[Monthly Fixed Income Monitor - December 2025 - January 2026](#)



Paragraph one predicts the Bank of Canada will hold rates through early 2026 then increase rates in Fall/2026. Against the backdrop of falling US rates, the Loonie could rise.

## 'Canadian debt issuers + foreign investors: A timely re-coupling' NBC Market View Dec 19, 2025

### Canadian debt issuers + foreign investors: A timely re-coupling

By Warren Lovely

Over the years, Canadian debt issuers and foreign investors have struck up a symbiotic relationship, each offering (and receiving from) the other something they ultimately need/desire. For Canadian issuers, ready access to deep pools of foreign cash helped finance current operations and large-scale capital aspirations (without having to lean too heavily on domestic investors). In return, foreign investors received Canada's high quality, liquid paper with some yield (and/or spread) attached.

This issuer-investor interplay worked nicely, even if the balance of power wasn't always perfectly balanced. The fruits of this union included record foreign ownership of outstanding Canadian debt. At the end of 2024, non-residents controlled precisely 39.5% of all available Canadian debt securities.

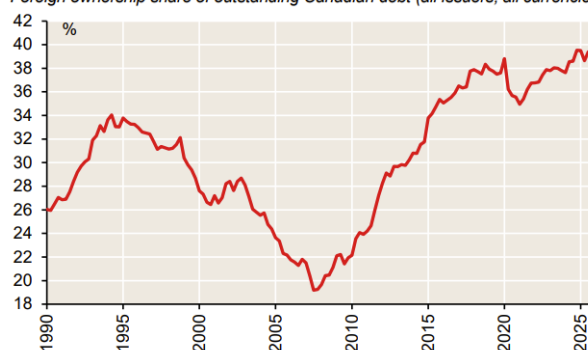
Then came a first-half hiatus. Foreign investors grew guarded, tempering their enthusiasm for marginal Canadian debt. That was understandable, given the trade-related uncertainty attaching itself to Canada in the early days of the Trump 2.0 regime. The geopolitical picture remains murky, but we've nonetheless witnessed a timely re-coupling of foreign investors and Canadian debt issuers.

Recent releases add useful context/colour... Freshest of all, IMF official FX reserve or COFER data show reserve managers collectively added to their CAD holdings in Q3. Make no mistake, CAD is still a comparatively minor slice of allocated reserves (2.6%). Nor has the loonie's share recovered from back-to-back quarters of net divestment in the first half of 2025. Still, the apparent return of 'official' money is welcome news.

This COFER narrative dovetails with complementary data from StatCan on international transactions in Canadian securities. Here we find broader evidence of renewed foreign interest in Canadian debt securities (beyond purely FX managers). We always caution that the reported buying of 'Canadian' debt includes activity in international markets. But isolating for the one issuer needing to raise the most cash domestically—the Government of Canada—it seems that non-residents are once more lending a helping hand. Foreign investors acquired a net \$25 billion of GoC debt (T-bills + bonds) in Q3 or ~60% of what was made available. Non-resident added another \$20 billion in October alone, getting Q4 off to a nice start. If not a sacred union, this is certainly a beneficial arrangement for a Canadian issuer with big plans for the year(s) ahead.

**Chart 1: Cdn issuers have leaned on foreign investors**

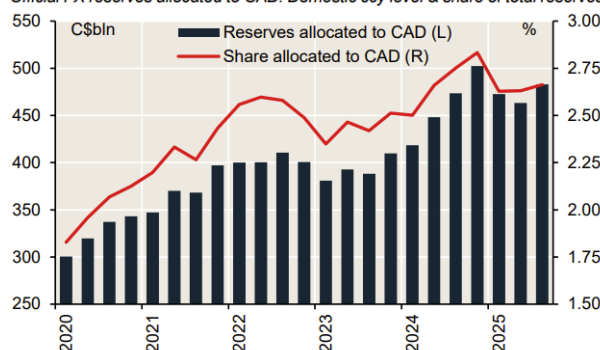
Foreign ownership share of outstanding Canadian debt (all issuers, all currencies)



Source: NBC, StatCan | Note: Based on book value of all Cdn debt, incl. fgn ccy issues

**Chart 2: FX reserve managers return to CAD in Q3**

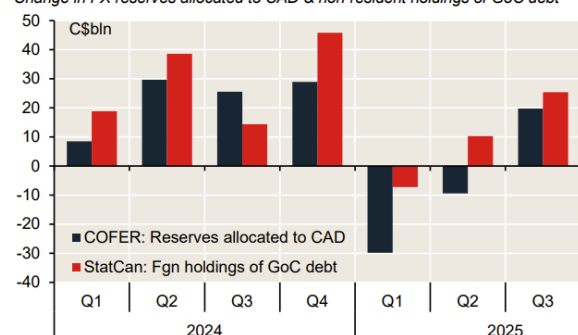
Official FX reserves allocated to CAD: Domestic ccy level & share of total reserves



Source: NBC, IMF | Note: Data reported in USD; converted to CAD at qtr-end FX rate

**Chart 3: For GoC, foreign re-attachment a welcome story...**

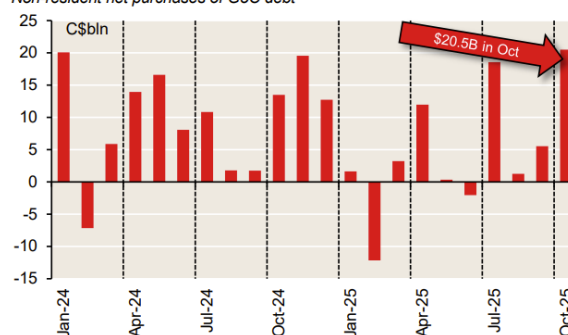
Change in FX reserves allocated to CAD & non-resident holdings of GoC debt



Source: NBC, IMF, StatCan | Note: Q/Q change; GoC debt is domestic only (T-bills+bonds)

**Chart 4: ... with net foreign buying extending into October**

Non-resident net purchases of GoC debt



Source: NBC, StatCan | Note: GoC debt is domestic only (T-bills+bonds)

Economics and Strategy Website

1

Full Report here: [Market View - Canadian debt issuers + foreign investors: A timely re-coupling](#)



## Highlights

By Stéfane Marion and Kyle Dahms

- With no clear path for U.S. monetary policy, recent labour-market weakness has led us to add a Fed rate cut in Q1 2026. This points to a softer USD in the near term versus our prior call for early-2026 strength. Even if the greenback does firm, we would view it as short-lived, as rising Treasury supply and weaker foreign official demand should weigh on the USD in H2 2026.
- The Loonie is ending the year on a strong footing, with gains broad-based across the G10: all currencies except the Swedish krona have depreciated against the Canadian dollar. The recent resurgence reflects a mix of better-than-expected economic data and clearer policy follow-through from Ottawa since the November 4 budget. After nearly a decade of moving in lockstep, U.S. and Canadian monetary policy paths are set to diverge in 2026—a backdrop that should remain supportive of CAD appreciation. We have a USD/CAD target of 1.32 by year-end 2026, though the path to that level is unlikely to be linear.
- As the year draws to a close, the Japanese yen remains near 155 against the U.S. dollar, having recently retested highs reached earlier in 2025. The currency's weakness reflects a mix of economic developments and policy dynamics. While a historically low real effective exchange rate and narrowing yield differentials could suggest scope for appreciation in 2026, persistent inflation and a substantial fiscal stimulus package are likely to weigh on sentiment. Our base case remains one of continued yen weakness with only a slight appreciation by year end (to 150).
- In the final weeks of the year, the Chinese yuan is approaching its strongest levels in over a year, trading below 7.05 against the U.S. dollar. While still weaker than levels seen in the immediate post-pandemic period, the appreciation in 2025 has been notable given heightened trade tensions with the United States. Despite these headwinds, China has shown resilience by redirecting trade flows and maintaining growth. Valuation metrics reinforce this trend: the real effective exchange rate remains near historical lows, and purchasing power parity suggests the yuan is undervalued, leaving room for further appreciation. Our base case anticipates continued strength, and we have moved our year-end target to 6.90 for USD/CNY.

### NBC Currency Outlook

Currency		Current	Forward Estimates			
		December 15, 2025	Q1 2026	Q2 2026	Q3 2026	Q4 2026
<b>Canadian Dollar (new forecast)</b>	<i>(USD / CAD)</i>	<b>1.38</b>	<b>1.39</b>	<b>1.37</b>	<b>1.34</b>	<b>1.32</b>
<i>United States Dollar</i>	<i>(CAD / USD)</i>	<i>0.73</i>	<i>0.72</i>	<i>0.73</i>	<i>0.75</i>	<i>0.76</i>

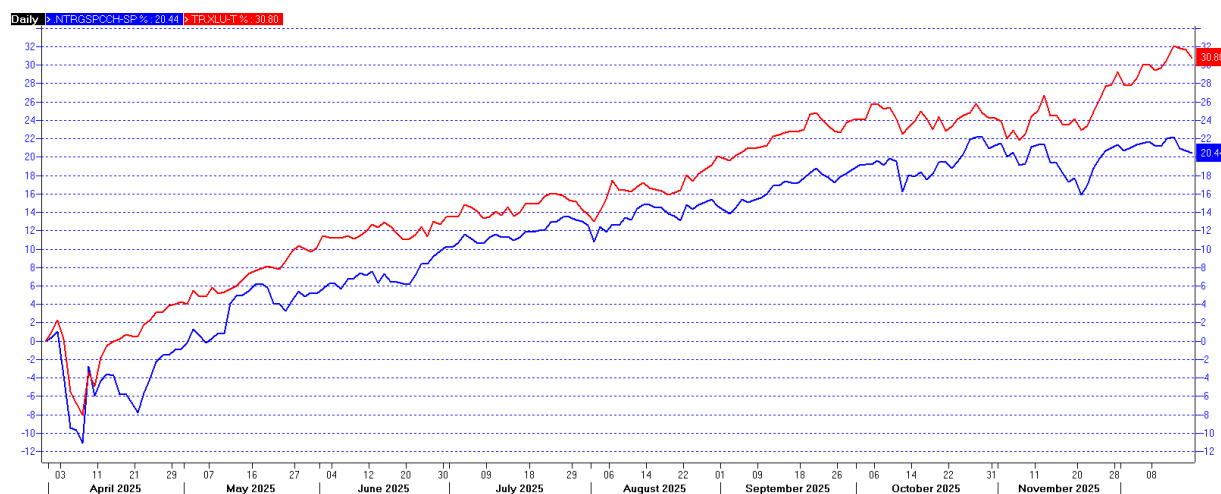
Full Report: [Forex - December 2025](#)

Weak Dollar/Stronger Loonie discourages buying of Canadian-sourced goods. Weak Dollar ('Beggars Thy Neighbor') appears to appeal to the Trump Administration. Proponents should recall the US buys few discretionary items from Canada (think flat-screen TVs). Canada sells the US raw materials, which the US processes into finished, higher-value-added products for sale back to Canada. Guess which economy accrues more GDP growth?

Canada's GDP (our buying power) is 7.6% of the US. The percentage of those value-add sales back to Canada is much smaller than the total US products produced from those commodities. Being a largely internal economy, most of those produced goods are purchased by US consumers. Guess who's really paying? As US consumers are discovering, tariffs plus a weak dollar add more costs to US buyers than to Canadians. Those costs are a drag on the economy that exceeds the economic value of the US industries those policies 'protect'. Result? Slower US growth, weaker job market, higher US inflation and international bad faith. We thought, 18<sup>th</sup> Century [Mercantilism](#), like [polio](#), was behind us.

We believed that a weaker US dollar would not result in a sharp decline in demand for Canadian product and a rising Loonie coupled with a not-worse Canadian economy should see Canadian equities outperform those of the US. Markets agreed.

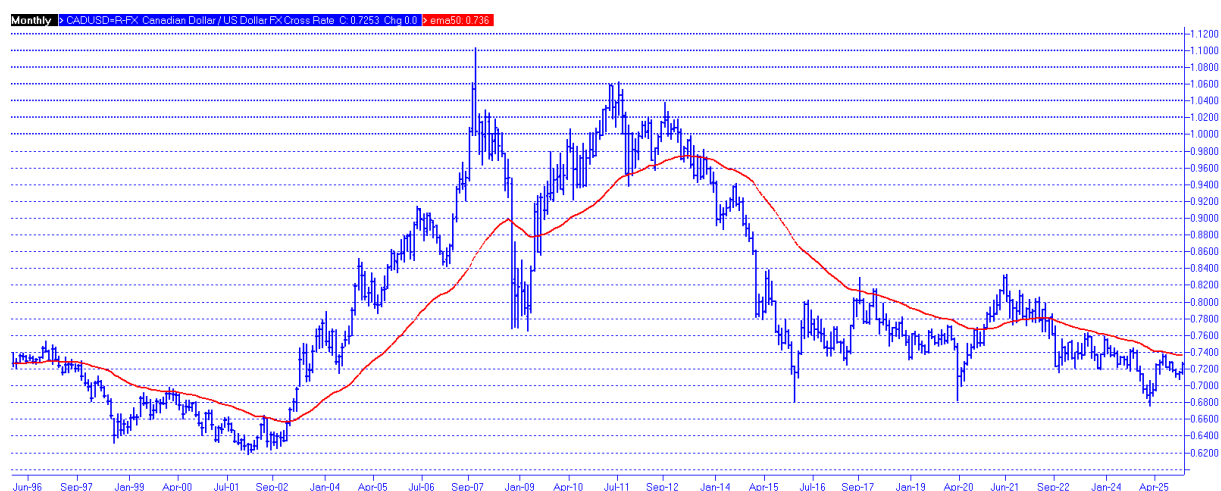
## SP500 Total Return (TR) \$C Hedged 20.4% vs TSX 60 TR (30.8%) Mar 31, 2025-to-date



Source: LSEG, NBF, Hilberry close Dec 17, 2025.

A rising Loonie can offset US market gains in Canadian funds. Accustomed to sky-high Canadian property prices, lack-luster Canadian equity markets and a falling Loonie, Canadian investors have crowded into US dollar denominated stocks and real estate. A reminder of the Loonie's past...

## FOREX: \$1 Canadian dollar cost in US funds (\$0.7253) 1995-2025



Source: LSEG, NBF, Hilberry close Dec 17, 2025.

Note the run up from the 62 cent lows in late 1999's-early aughts to \$1.06 July 2011. That 71% gain did a lot of damage to non-Canadian denominated assets.

## How did the rising Loonie impact US dollar investments?

\$10,000 Canadian invested into the S&P500 Total Return Index at month end Dec 31, 1999 held through to July 31, 2011, converted back to Canadian funds

- S&P500 USD dollar %'g change: **-32.9%** (1,583.32 vs 1,061.40)
- USD/Canadian dollar %'g Change (US dollar loss): **-51.67%** (\$0.6901 US | \$1.0467 US)
- 11.5-year Total Return in Canadian Funds: **-55.8%** = \$4,420

In Dec 1999, \$10,000 CDN (\$0.6901 USD) = \$6,901 USD. Investing that USD total into the S&P500 Total Return Index, holding to July 31, 2011 then converting back to Canadian (at \$1.0467 USD) resulted in \$4,420. A combination of excess enthusiasm for US stocks and excess pessimism for Canada. What was going on in the US 1999-2000 again? Oh right. The Y2K Dot.Com bubble.

Recently we've noted the US led AI-spending binge being a saving grace for the US equity markets. We hope this proves prescient. Here's why we're cautious (credit S P Perera).



Shanaka Anslem Perera ⚡️  
@shanaka86

### THE GRID WILL BREAK FIRST

Texas just received requests for 226 gigawatts of data center power.

The entire state runs on 85 gigawatts.

Here is what nobody is telling you.

ERCOT's interconnection queue nearly quadrupled in twelve months. From 63 gigawatts in December 2024 to 226 gigawatts by November 2025. Seventy-three percent is data centers. The AI infrastructure buildup is now the largest in American history.

But here is the number that changes everything: 3%.

Of the 226 gigawatts requested, only 7.5 gigawatts are actually connected and operating. Fifty-seven percent of the queue has not even submitted planning studies. Joshua Rhodes at UT Austin called it "laughable." His estimate for what actually gets built by 2030? Twenty to thirty gigawatts. Ten percent of the queue.

\*\*\* The rest is vapor.

Meanwhile, Oracle just delayed OpenAI data centers from 2027 to 2028. The company carries \$108 billion in debt. Negative \$10 billion free cash flow. Credit default swaps at 126 to 141 basis points, the highest since 2020. And it owes OpenAI 4.5 gigawatts of capacity under a \$300 billion contract.

OpenAI loses \$9 billion per year. It must grow revenue fivefold in two years just to pay Oracle.

The circular financing everyone fears? We verified it. The \$610 billion figure circulating through financial media is inflated tenfold. Actual executed investments: \$63 to \$70 billion. Still unprecedented. Still concentrated risk. But not the imminent collapse some predict.

The real constraint is not financial. It is physical.

Electrons cannot be printed. Transmission lines take a decade. Generation capacity takes five to seven years. The hyperscalers have the capital. They do not have the kilowatts.

This is not a bubble that pops. It is a ceiling that binds.

Data center vacancy: 1.9%. Pre-leasing: 84%. The demand is real.

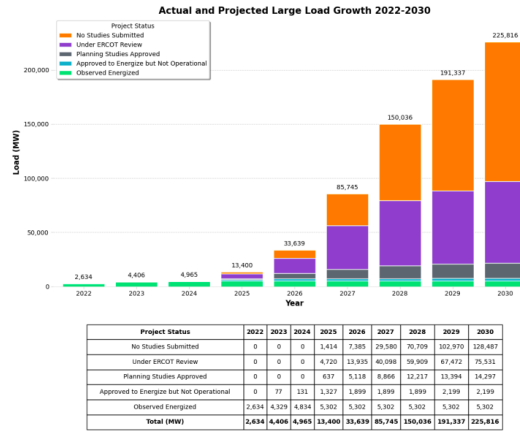
Mr. Perera favors dramatic statements. That doesn't mean he's wrong.



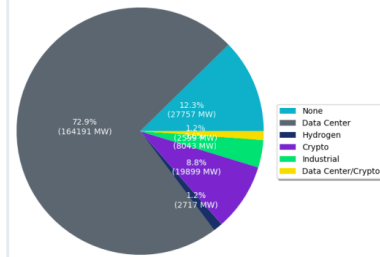
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## Large Load Interconnection Requests (as of November 18, 2025)



### Large Loads by Project Type



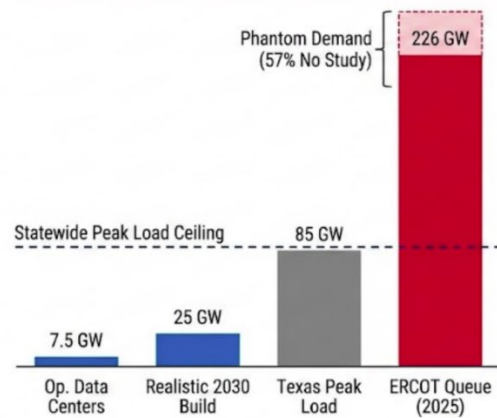
**Key Takeaway:** ERCOT is tracking approximately 226 GW of Large Loads seeking interconnection (compared to 63 GW in December 2024) of which ~73% are data centers.

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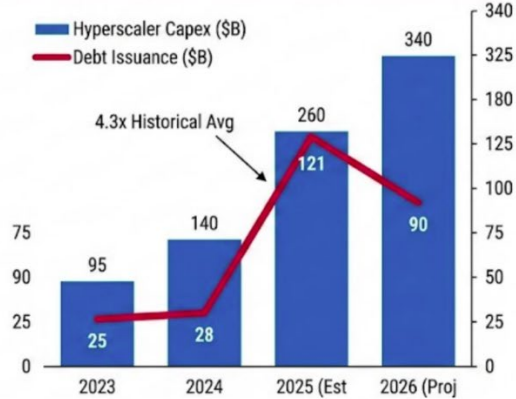
## THE THERMODYNAMIC CEILING: Physical Constraints vs. Financial Ambition

December 2025 | Strategic Infrastructure Analysis

### I. The Physical Reality: ERCOT Capacity vs. Demand



### II. The Financial Fuel: Capital Expenditure vs. Debt Surge



Source: ERCOT Large Load Queue (Nov 2025), Bank of America Global Research, Company SEC Filings | Strategic Infrastructure Analysis Dec 2025

## Staying with the Energy Markets – lumps of coal?

Excerpt From NBF's Energy Desk daily note Dec 16, 2025

"A Bloomberg Opinion piece this morning highlighting India's proposed power expansion plan which prioritizes coal over natural gas, aiming for energy self-reliance by 2047. Gas-fired capacity is set to halve by then from its already minimal base, contributing under 2% to the electricity mix last fiscal year due to declining domestic production and reliance on more expensive LNG imports, causing utilities to idle plants and incur losses. The country has phased out nearly 5 GW of unused gas capacity. In contrast, coal (powering about 75% of electricity) remains cheap and abundant, with reserves lasting over a century, essential for meeting surging summer demand and averting blackouts. The latest plan boosts coal capacity by nearly 90% through 2047, diverging from earlier projections. This mirrors strategies in China and Pakistan...."

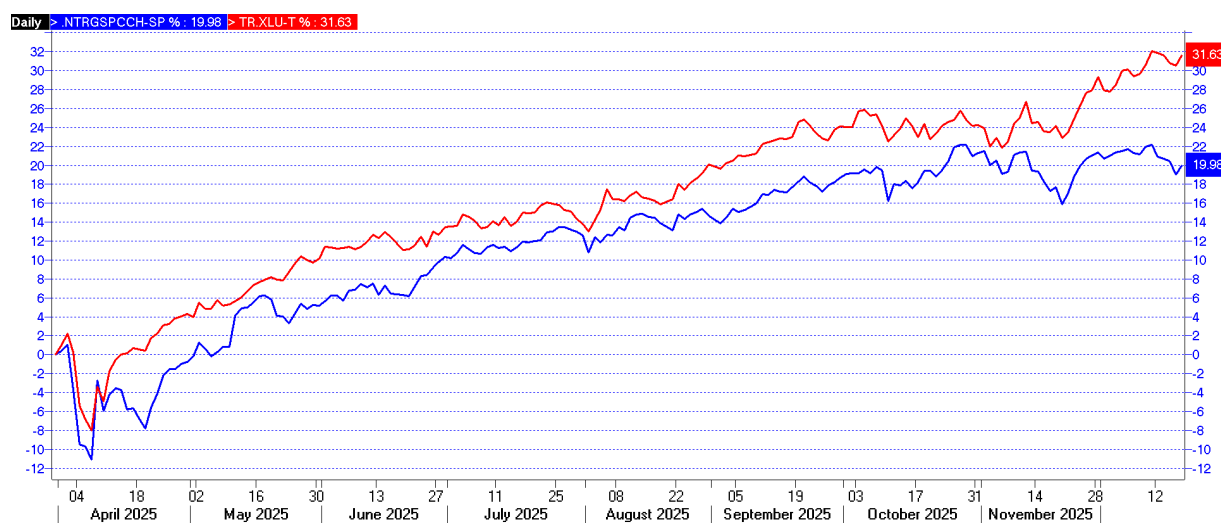


Bloomberg article here (requires subscription):

[India's Power Plan Skips Gas to Double Down on Coal Bloomberg Dec 16, 2025](#)

2025: Canadian equities continue to outperform the US.

**S&P500 Total Return 20%) vs SP/TSX 60 Total Return \$USD 31.6% 12 mos**



Source: LSEG, NBF, Hilberry close Dec 18, 2025.

The SP500 has flatlined since mid-October while the TSX continues to climb. One reason Canadian equities have outperformed the US in 2025....

### **Alberta's huge oil sands reserves dwarf U.S. shale – BOE Report.com Dec 16, 2025**

*"Investor interest in Canadian oil producers, primarily in the Alberta oil sands, has picked up, and not only because of expanded export capacity from the Trans Mountain pipeline.*

*Enverus Intelligence Research says [the real draw](#) — and a major factor behind oil sands equities outperforming U.S. peers by about 40 per cent since January 2024 — is the resource Trans Mountain helps unlock.*

*Alberta's oil sands contain 167 billion barrels of reserves, nearly four times the volume in the United States.*

*Today's oil sands operators hold more than twice the available high-quality resources compared to U.S. shale producers, Enverus reports.*

*"It's a huge number — 167 billion barrels — when Alberta only produces about three million barrels a day right now," said Mike Verney, executive vice-president at McDaniel & Associates, which earlier this year updated the province's oil and gas reserves on behalf of the Alberta Energy Regulator.*

*Already fourth in the world, the assessment found Alberta's oil reserves [increased](#) by seven billion barrels.*

*Verney said the rise in reserves despite record production is in part a result of improved processes and technology."*



[Alberta's huge oil sands reserves dwarf U.S. shale | BOE Report](#)

Nutrien announced they were building a new Potash export terminal in **Port of Longview** Washington State. BC Premier David Eby was [outraged Nutrien is bypassing BC](#). We believe Alberta Crude could follow.

## Danielle Smith says she's open to shipping oil to Pacific via U.S. Northwest

*Smith's comments come just weeks after Saskatchewan-based potash giant Nutrien announced plans to build a \$1-billion export terminal at Washington State's Port of Longview*

We've predicted BC anti-pipeline resistance would not prevent crude leaving Alberta via the Pac NW Coast, nor would it reduce tanker traffic in the Straights of Juan De Fuca. We believed Alberta crude would be exported from the Pac NW, if not BC then via Washington State. We fretted this would hand potential BC Provincial revenues to Washington State and further tie Canadian energy policy to the whims of US Federal and State Govt. politics.

## US Holiday Shoppers spending less



ALL-AMERICA ECONOMIC SURVEY

# High cost of goods is causing consumers to spend less for the holidays, CNBC survey finds

PUBLISHED MON, DEC 15 2025 8:00 AM EST | UPDATED MON, DEC 15 2025 9:39 AM EST



Steve Liesman  
@STEVELIESMAN

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### KEY POINTS

- The latest CNBC All-America Economic Survey found the high cost of goods has emerged as a major factor affecting how much shoppers spend and where they spend.
- Overall, 41% of Americans plan to spend less for the holidays this year, 6 points higher than a year ago.
- Among those spending less, 46% blame the high cost of goods, a 10-point increase from the 2024 survey.

[Inflation causing less Holiday Shopping - CNBC All American Survey](#)

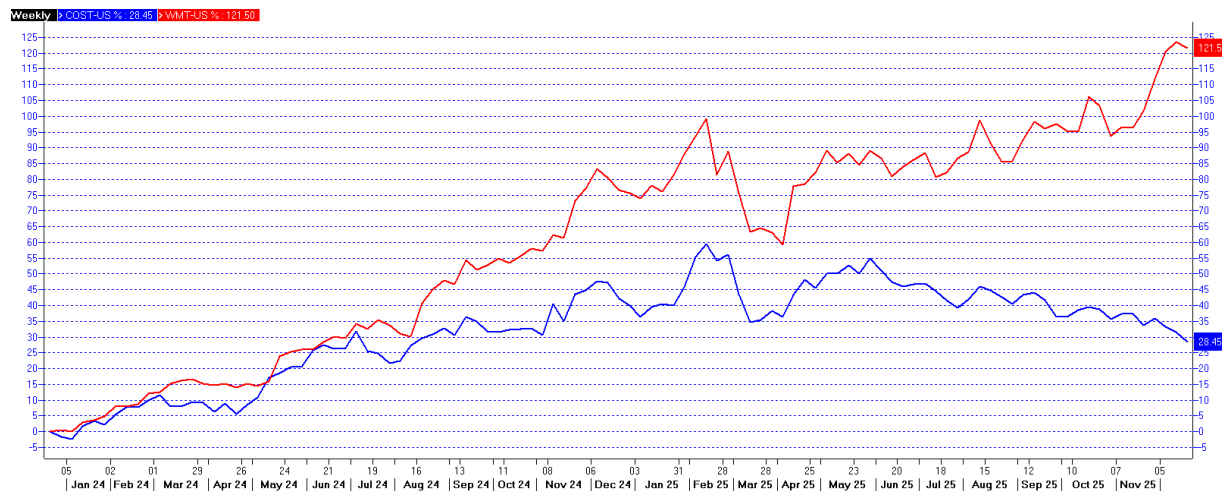
Consumer angst often means lumps of coal for the party in power...





## Retail Sector: Investors pricing 'budget' up, 'big dollar' down.

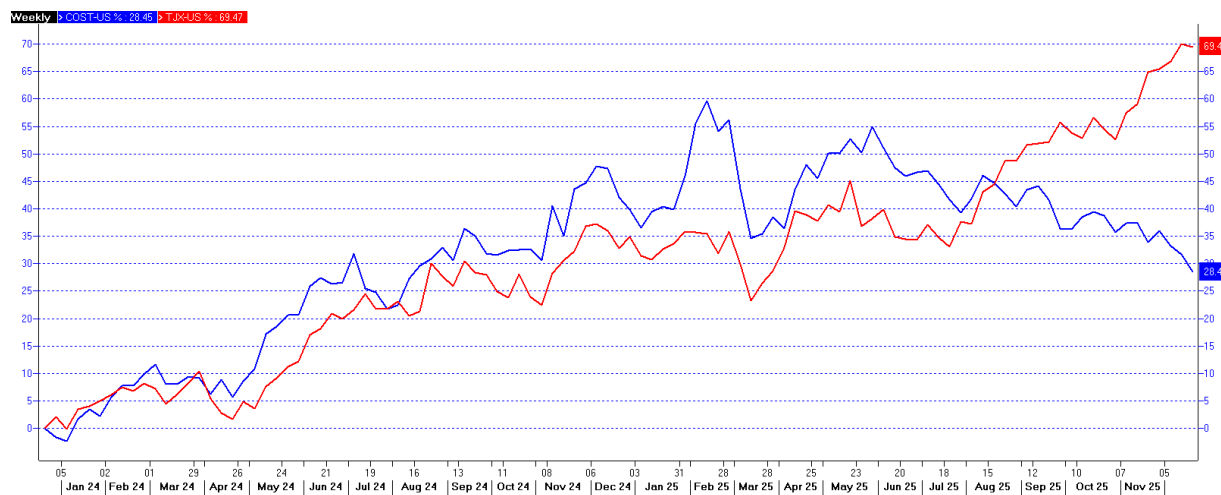
% Change: **Costco (COST-\$862.70 +28.4%)** vs **Walmart (WMT-\$115.38 +121.5%)** – 2 years.



Source: LSEG, NBF, Hilberry close Dec 17, 2025.

Costco Bulls complain Walmart was out of favor Dec/2020-Jan/2024, becoming 'to much loved' Mar/2024 onwards. OK. Here's Costco vs. off-brand apparel retailer TJX Stores (TJX-NYSE). Prices were tightly correlated to Trump's April, 2025 Tariff Day. Prices have diverged since.

% Change: **Costco (COST-\$862.70 28.4%)** vs **TJX Co's (TJX-\$155.66-69.4)** – 2 years.



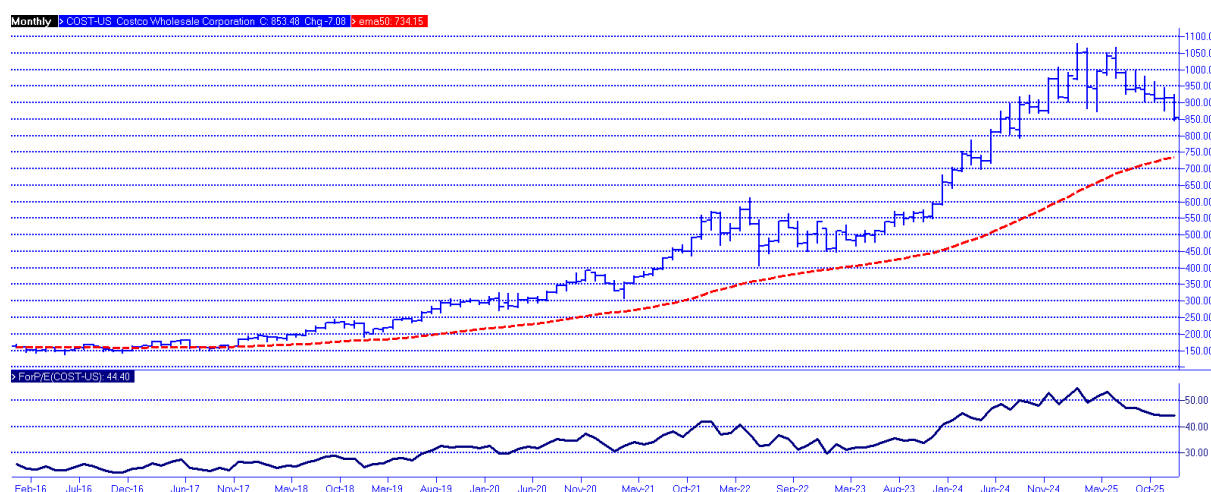
Source: LSEG, NBF, Hilberry close Dec 17, 2025.



## How to avoid lumps of coal in your stocking (portfolio).

Costco Wholesale P/E 42.2X. Div Yield 0.61%. Despite the recent peak-to-last **-21%** decline Costco is still priced above the S&P Avg P/E which includes even higher P/E names (looking at you NVidia and Tesla). The following chart plots Costco's share price (upper chart) vs. P/E ratio (lower).

### Costco Wholesale (COST-\$850.70) 10 years – Monthly Ranges



Source: LSEG, NBF, Hilberry close Dec 18, 2025.

In 2015, Costco's share price averaged \$143.50. The Dec 2015 monthly average was \$163.50 being the upper end of the 2015 range. Calendar year 2025 P/E: 26.7. 2015-2019 P/E range: 22.5 to 30 averaging 26.25.

In late 2019 investors began bidding Costco's shares higher. The P/E ratio continued to climb, peaking in Feb/2025 at 54.8. Costco's YTD-2025 annual price average is \$961. The \$1,078 high was in February. The \$844 low was hit this month.

Fiscal Year 2015 Costco generated \$5.27 earnings per share (EPS). 2025 EPS \$18.67. Earnings have climbed 3.54 times. That's fantastic over 10 years.

The average price in 2015 was \$142.35 (\$117-\$169.70). 2025's average has been \$964.80 (Feb, 2025 high \$1,078 | Dec, 2025 low \$844). 2025 Average prices have increased 6.7X from 2015.

The price per dollar of earnings has increased much faster than the growth in earnings. Most of that acceleration occurred post 2022. Investors have been willing to pay a LOT more for Costco's earnings lately. We've long admired this company, but were discouraged by the P/E.



## What would be 'Growth at a reasonable price' (GARP) for Costco?

Assuming consensus EPS for 2026 \$20.26.

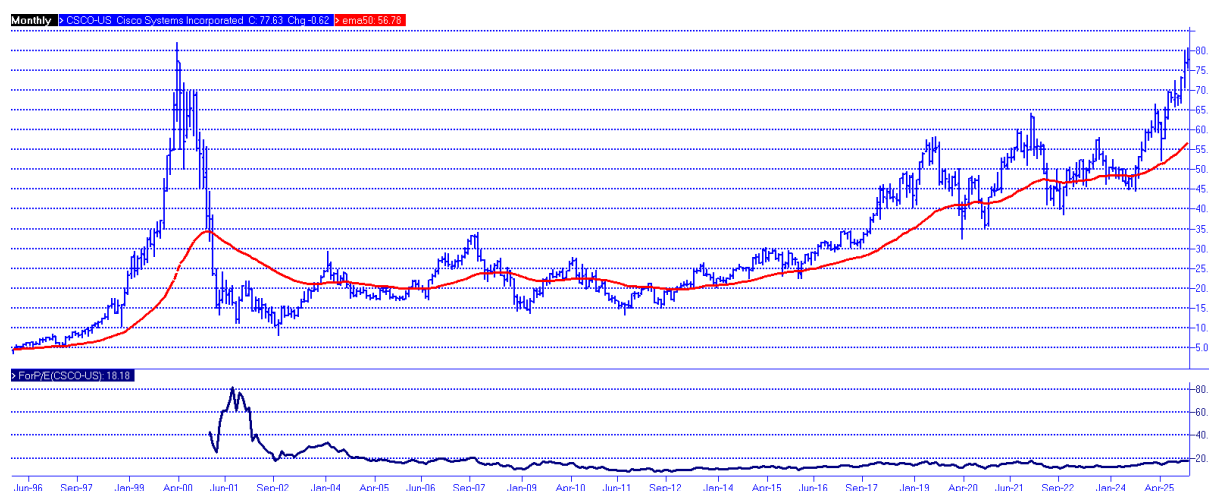
- Using the 2018-2021 average P/Es around 30X = \$607
- P/E 35X = \$709
- **P/E 39.4 = \$800**

The S&P500 trailing PE is 30. A Costco \$607 price derived from a forward 12-month P/E of 30 is **-28%** from today's ranges and **-44%** from this year's peak. That price still isn't cheap! \$800 P/E 39.4 is at the high end of the 2021-23 range. 40X is NOT CHEAP but it's a lot better than this year's 53X average. \$800 is **-5.2%** from this week's 52-week low of \$844.06. Costco is a fantastic company that has been trading at fantastic prices. Today's prices around \$850 are somewhat less crazy.

**DISCLOSURE: We hold Costco Wholesale common shares personally, for family members and for client accounts over which we have trading authority. We have traded in the security within the past 60 days.**

Great companies can grow into their share prices... eventually. Y2K Dot.Com example:

## Cisco Systems Inc (CSCO-US-\$77.63)



Source: LSEG, NBF, Hilberry close Dec 17, 2025.

The left-hand spike is to \$82.00 in March/2000. At the time, Cisco had yet to post earnings. Jan/2001 saw positive earnings but by that time the stock had halved to \$37.40. By October 2021 Cisco's P/E was 77...against a price of \$17.80... **-78%** from the Y2K peak. Ouch. **Thou Shalt Not Over Pay.**





Last month Cisco's price pierced \$80 for the first time since Year 2000. Over that 25-year period, Cisco posted continuous positive annual revenue per share growth (1999 \$1.86 | 2025 \$14.40) and maintained a disciplined balance sheet. Cisco has been a fantastic company. Paying fantastic (as in fantasy) prices was a mistake.

October 2014 trailing earnings per share: \$2.06. P/E approx. 11.7. The \$0.72 annual cash dividend represented 3% yield. That's more like it! We initiated a Cisco position in October 2014 at \$24.06. Cisco remains in our US Dividend Growth portfolio. Dec 2025's monthly avg price \$78.23. Consensus 12 mos. projected EPS: \$4.10 Annual cash dividend: \$1.64 = 2.1% yield. Trailing 12 mos. P/E: 29.6 Consensus projected P/E: 19.0

2014-2025:

- EPS: +99%
- Dividend: +127%
- Share price: +225%
- Trailing P/E's: Cisco 29.6 vs SP500 30.8 – in line with market
- Consensus projected P/E's: Cisco 19 vs SP500 24.1 = 21% discount

We still like Cisco. We're not increasing our allocation at these prices.

*DATA SOURCES FOR THE ABOVE: LSEG, Evercore, Valueline.*

**2025 looks to close near all-time highs. It's been a great year with many positive surprises and few lumps of coal. We are thankful for our client's success and so very grateful for their patronage. This will be our last posting for the year. Here's hoping your holiday season includes cheer and laughter with those you love.**

**Have a Merry Christmas and a Happy New Year.**

**Steve & Anna Hilberry**



Steve Hilberry  
Wealth Management Advisor, CIM

Anna Hilberry  
Wealth Management Advisor, CIM

**FOR THE RECORD Dec. 18, 2025 close**

DOW INDUSTRIALS:	47,951
S&P 500:	6,774
S&P/TSX COMP:	31,440
WTI:	\$56.54
LOONIE IN \$USD:	\$0.7254 \$US



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