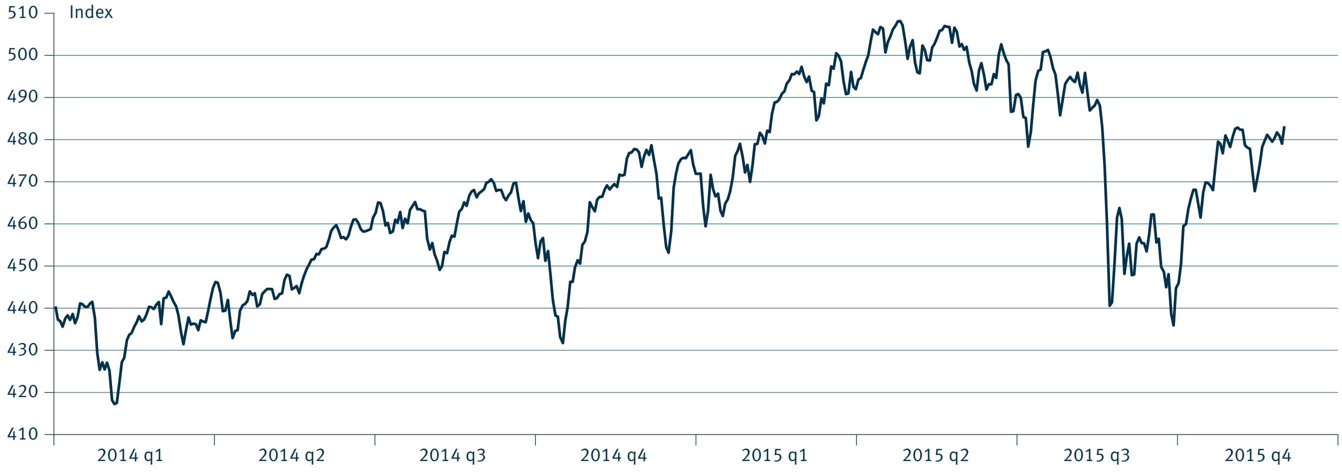
December 2015
Building your financial future

Investment Strategy

Global Economy

The year 2015 seems to be ending better than it started for the world economy. After seeing the worst two-quarter sequence since 2008-2009, global trade volumes bounced back in Q3 according to the latest data. This should stimulate industrial output via stronger demand in both advanced and emerging economies. In China, the slowdown seems to be abating, easing the need for further currency devaluation. With the IMF granting reserve status to the renminbi in December, Beijing's new five-year plan is better positioned to deliver the structural reforms that are much needed to enhance the Chinese economy.

World: Equities doing much better in Q4
MSCI AC



NBF Economics and Strategy (data via Datastream)

In this issue

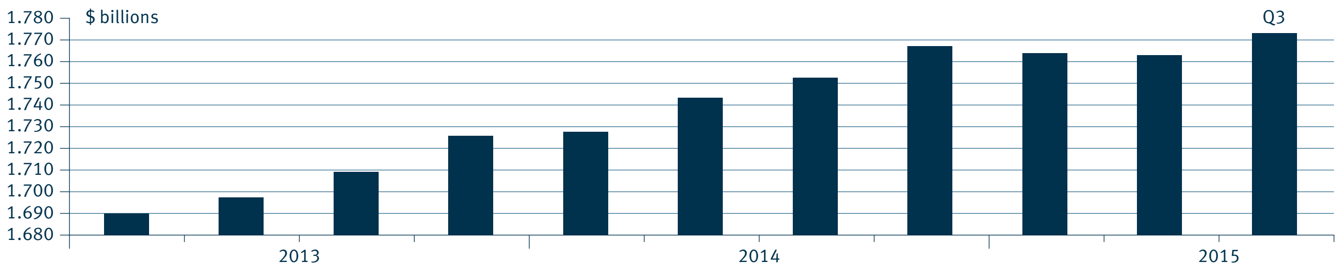
NATIONAL BANK FINANCIAL
WEALTH MANAGEMENT

Canada

After a difficult start to the year, Canada's economy is finally growing again. Trade has turned into a major contributor thanks to the U.S. resurgence. Consumers seem to be making the most of rising disposable incomes courtesy of a resilient labour market and low pump prices. Motor vehicle sales in Canada are on track to reach a new record high in 2015. Yet, considering the uncertainties with regards to the impact of the oil shock and the extent of Canada's ability to capitalize on the U.S. recovery, the Bank of Canada is likely to err on the side of caution by keeping monetary policy accommodative well into 2016. The policies proposed by the newly elected federal government should give a boost to the non-residential construction sector and help support spending among the middle class thanks to lower taxes. Canada's GDP should grow by 1.6% in 2016.

Canada: Economic activity rebounds in Q3

Real GDP



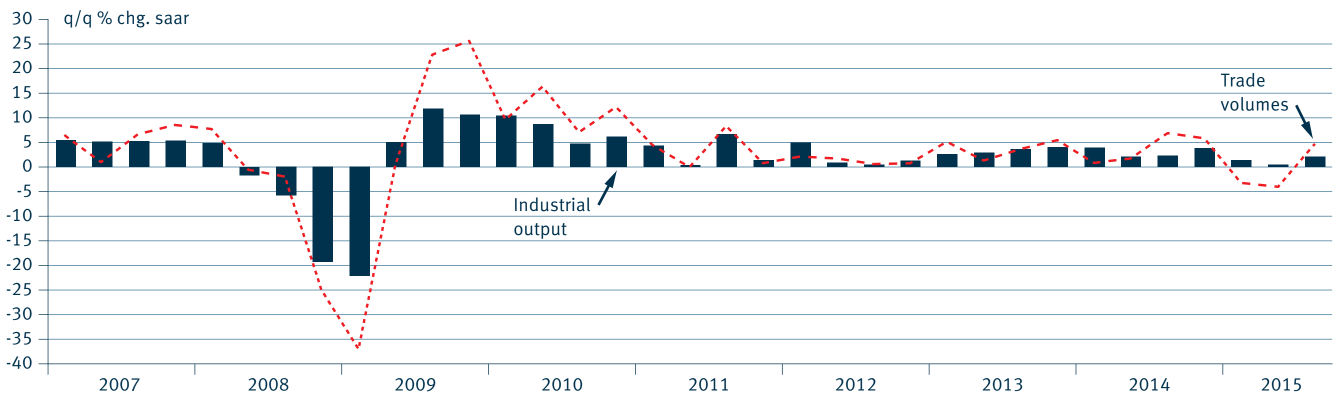
NBF Economics and Strategy (data via Datastream)

Financial Markets

After two consecutive quarters of contraction, global equities rebounded in Q4 with stock market volatility abating, credit market stress receding and the U.S. dollar showing less lift. At this writing, the MSCI AC had recouped about two-thirds of the 14% it lost between April and September. Encouragingly, the advance has been broad-based geographically with many of the regional indexes now showing positive year-to-date total returns in local currency. The market is yearning to look beyond the Q3 reporting season to focus on an improving earnings outlook. Encouragingly, economic surprises in the euro zone and emerging markets have turned positive in recent weeks.

World: Pick-up in global trade

Global industrial output and trade volumes



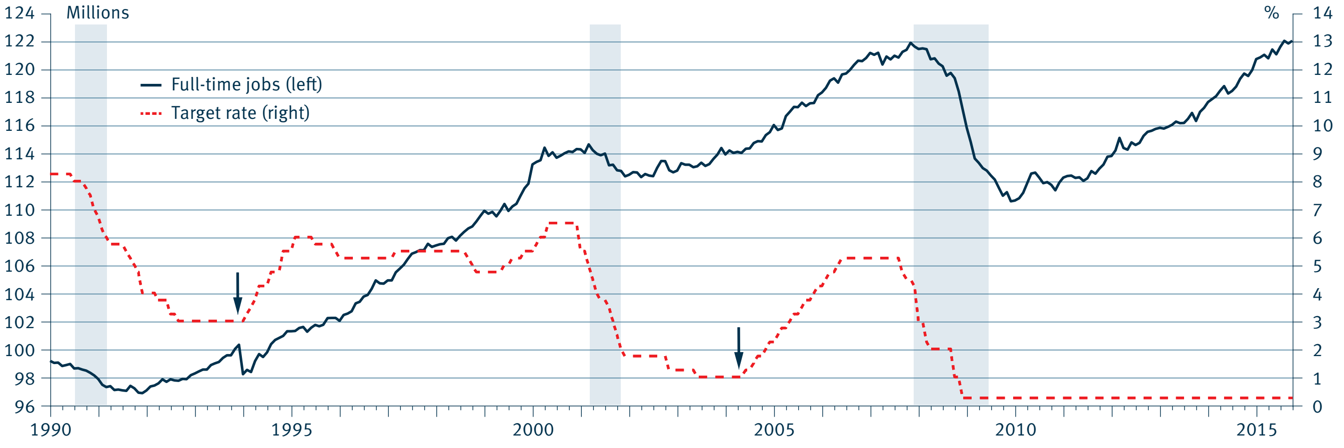
NBF Economics and Strategy (data via CPB)

United States

In the United States, the Federal Reserve is about to make history with a first rate hike in almost a decade. The Fed will point to a strengthening U.S. economy and a solid labour market to support its decision. The unemployment rate is currently hovering near a cyclical low of 5% and full-time employment has finally recouped all of the losses incurred during the last recession. Still, there may be a long pause early in the new tightening cycle, given the lack of inflation. We remain comfortable with our forecast of just 2.3% for 2016 U.S. GDP growth.

U.S.: Key condition for Fed rate hike now fulfilled

Fed funds rate vs. Full-time employment



NBF Economics and Strategy (data via Datastream and Federal reserve)

Investment Strategy

While many will argue that it's still too early for monetary tightening by the Fed, as total inflation remains stubbornly low, manufacturing is struggling and there are some concerns about the state of the global economy (particularly in Asia), it is difficult to say that things haven't improved in the last quarter. Abroad, the Chinese stock market is now solidly above its August trough, suggesting recent easing measures by their central bank are slowly starting to overcome investors' fear of a hard landing. In the U.S., things look solid enough. Consumption has been a constant contributor to the overall economic performance of the last year and the job market remains red hot with the unemployment rate closing in on 5% and set to improve even further in the next quarters.

While we are aware that the Fed is the first central bank considering monetary policy tightening at a time when others are still pushing accommodative policy, we think the U.S. dollar value has benefited from speculation buying in anticipation that the rate hike will help it appreciate even more. We think this will prove to be a typical "buy the rumour, sell the news" type of situation.

As for stocks, markets may go sideways following the initial hike, but ultimately, the state of the economy will take centre stage and help U.S. equity returns. However, we believe their European counterparts may offer better earnings prospects on a relative basis by benefiting from the ECB's easier policies.

On the fixed-income side, we expect yields to react to the tone set by the Fed after the initial tightening via increased volatility on a short-term basis. As such, investments with lower durations and higher coupon rates should be favoured. Municipal bonds also look particularly attractive as the yield is well above provincial yields. We favour preferred shares over high yield bonds as we think they hold greater value at a much lower risk on a tax-adjusted basis.

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%	3.5%	0.5%
Fixed-income (duration: 5 years)[1]	60% to 100%	70.0%	66.0%	0.0%
Canadian equities	0% to 30%	7.5%	9.0%	0.0%
U.S. equities		7.5%	10.5%	-0.5%
Foreign equities		5.0%	6.0%	0.0%
Alternative investments[2]	0% to 10%	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%	3.0%	0.0%
Fixed-income (duration: 5 years)[1]	45% to 80%	55.0%	51.0%	0.0%
Canadian equities	20% to 45%	14.0%	15.5%	0.0%
U.S. equities		14.0%	17.5%	0.0%
Foreign equities		7.0%	8.0%	0.0%
Alternative investments[2]	0% to 15%	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%	1.5%	0.0%
Fixed-income (duration: 5 years)[1]	30% to 65%	40.0%	36.0%	0.0%
Canadian equities	30% to 65%	17.5%	19.5%	0.5%
U.S. equities		17.5%	21.5%	-0.5%
Foreign equities		10.0%	11.5%	0.0%
Alternative investments[2]	0% to 20%	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%	0.0%	0.0%	0.0%
Fixed-income (duration: 5 years)[1]	25% to 45%	35.0%	28.0%	0.0%
Canadian equities	40% to 75%	20.0%	22.0%	0.5%
U.S. equities		20.0%	24.0%	0.0%
Foreign equities		15.0%	16.0%	-0.5%
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%	0.0%	0.0%	0.0%
Fixed-income (duration: 5 years)[1]	0% to 30%	20.0%	11.5%	0.0%
Canadian equities	55% to 100%	22.5%	25.0%	0.5%
U.S. equities		22.5%	27.0%	-0.5%
Foreign equities		20.0%	21.5%	0.0%
Alternative investments[2]	0% to 30%	15.0%	15.0%	0.0%

1 Dex Universe Index
2 Includes Hedge funds, Global real estate and Infrastructure, and Commodities.

FORECAST

	2013	2014	2015 (Forecast)	2016 (Forecast)
Gross Domestic Product %				
Canada	2.0	2.4	1.2	1.6
U.S.	1.5	2.4	2.5	2.3
Inflation %				
Canada	0.9	1.9	1.2	1.7
U.S.	1.5	1.6	0.2	1.9

	December 2015		June 2016		December 2016	
	Canada	U.S.	Canada	U.S.	Canada	U.S.
Rate %						
Short-term rates (T-Bills, 91-Day)	0.40	0.36	0.46	0.82	0.46	0.98
10-year bond yields	1.81	2.40	1.96	2.76	2.08	2.54
30-year bond yields	2.50	3.14	2.62	3.43	2.67	3.20
Canadian dollar	U.S. $0.75		U.S. $0.77		U.S. $0.79	