Winter 2026
Building your financial future

NATIONAL BANK FINANCIAL
WEALTH MANAGEMENT

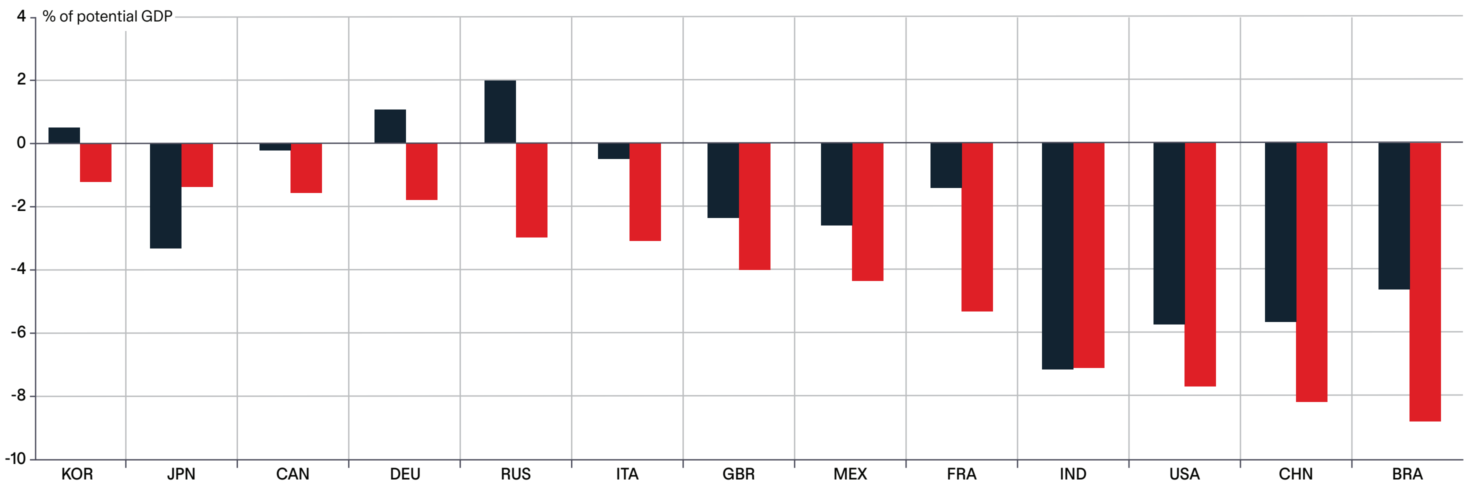
Investment Strategy

World

The pandemic seems to have opened a fiscal Pandora's box on an international scale, with governments no longer hesitating to increase spending at the slightest sign of economic weakness. The current situation is a good example: the United States, Japan, Canada and Germany have recently announced fiscal stimulus measures even though inflation remains above their central banks' targets. Make no mistake: this propensity to spend by the authorities will stimulate growth in the short term. In the long term, however, it could give rise to two distinct but interrelated risks: 1) inflation could rise again or, at the very least, remain at its current high level; 2) a corresponding increase in interest rates could raise doubts about the fiscal outlook for certain sovereign issuers. Bond market developments will therefore be one of the issues to watch in 2026 in advanced economies. What about emerging economies? As always, their fate will be dictated by developments in China, and we remain cautious in this regard. The world's second-largest economy remains heavily dependent on manufactured exports, with domestic demand being held back by the significant negative wealth effect on Chinese consumers caused by falling real estate prices. More generally, global growth will continue to depend on developments in Washington's trade policy, and on this front we are seeing some encouraging signs. Aware of the unpopularity of protectionist measures among a population concerned about the cost of living, the Trump administration recently lifted tariffs on certain food products. Although the impact of these measures on the average surcharge imposed on imports will be minimal, they could indicate a greater openness to compromise in Washington on this crucial issue. If inflation and interest rates remain manageable in advanced economies, they should grow at close to their potential in the coming months and offset a possible slowdown in China. Our baseline scenario forecasts global GDP growth of 3.2% in 2025 and 3.3% in 2026.

World: Governments are in spending mode

General government structural balance



NBC Economics and Strategy (data via the IMF)

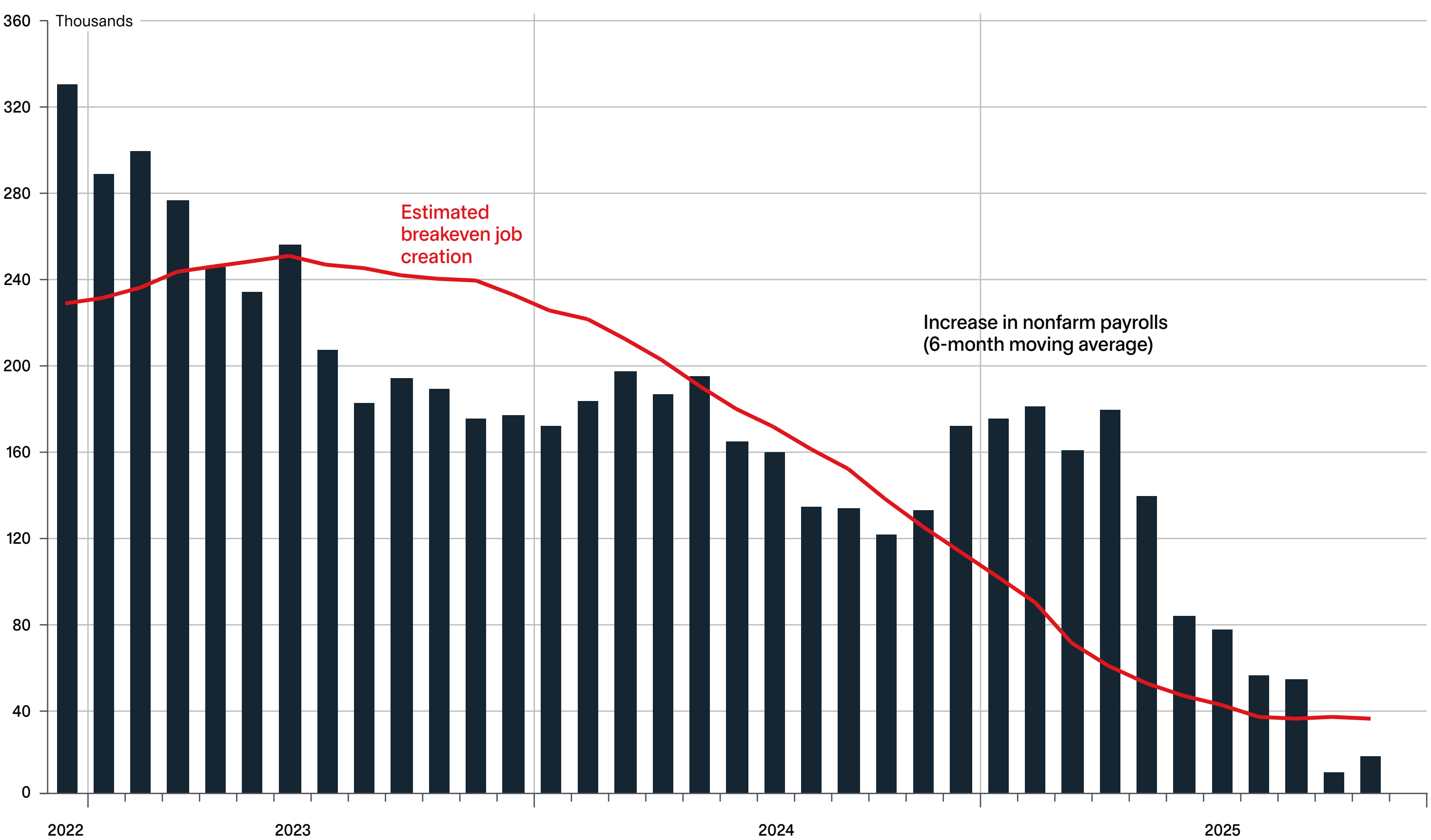
In this issue

United States

Strong U.S. GDP growth in Q2 and Q3 might suggest that the Trump administration's protectionist policies have had no impact on the economy. We don't entirely agree. Although their effect may have been less significant than expected, the tariffs imposed by Washington have nevertheless contributed to keeping inflation higher than it would otherwise have been. They have also had an impact on the financial results of small businesses, prompting them to cut 200,000 jobs since the beginning of the year. This slowdown has affected the entire labour market, as evidenced by the virtual stagnation of private employment over the past six months and the increase in the unemployment rate. While we do not deny that job creation has slowed recently in the United States, we do wonder to what extent this slowdown can be attributed to a decline in labour supply due to weaker population growth. Although monthly job gains have fallen sharply, they remain close to their "breakeven" rate, i.e., the rate that allows new entrants to the labour force to be absorbed and keeps the unemployment rate essentially stable in the long term. And even if job growth were to remain below this threshold for a few months, the resulting increase in the unemployment rate would not necessarily be catastrophic in our view. Provided it remains gradual, this easing would only increase the Federal Reserve's chances of achieving its inflation target. In the longer term, we believe that the slack currently opening up in the labour market is likely to be absorbed in 2026, aided by additional rate cuts by the Federal Reserve and the funds deployed by the One Big Beautiful Bill, which will soon begin to filter through the economy. In fact, some indicators suggest that the worst may already be over in terms of labour demand. If the job market does stabilize in 2026 (our base case scenario), we believe that inflation could quickly reappear on the radar not only of investors but also of the Federal Reserve. After a rocky end to the year due to the federal government shutdown, we believe the U.S. economy will recover in the first half of 2026. After peaking at 4.7% in Q1, the unemployment rate should start to decline again in a context of above-potential growth, reaching 4.4% by the end of the year. Meanwhile, inflation is expected to remain above the 2% target for the year as a whole. This forecast translates into GDP growth of 2.0% in 2025, 2.4% in 2026 and 2.1% in 2027.

U.S.: Job creation has slowed but remains close to "neutral"

"Breakeven" monthly job gains* as estimated by the Dallas Fed vs. average increase in nonfarm payrolls over the past 6 months



*Monthly job creation required to keep the unemployment rate stable over the long term

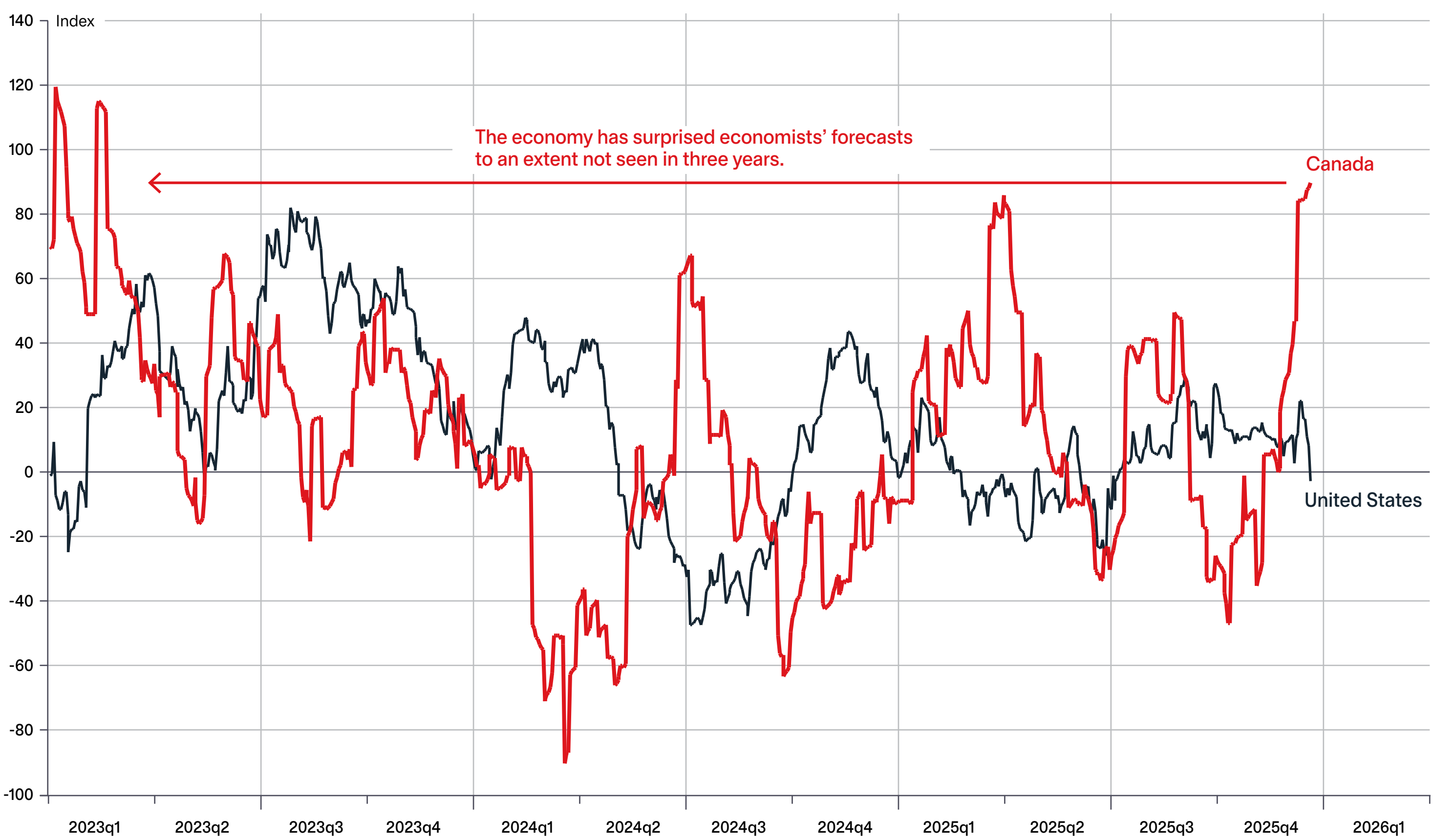
NBC Economics and Strategy (data via the Dallas Fed and Refinitiv)

Canada

As we enter 2026, the macroeconomic uncertainty that characterized the past year remains high, with trade negotiations between Canada and the United States still pending. Despite this instability, it is comforting to note that the Canadian economy is performing better than expected. GDP rebounded in the third quarter after a difficult second quarter, despite final domestic demand remaining stagnant. According to the Labour Force Survey (LFS), the labour market is showing a spectacular recovery. Thanks to three consecutive months of impressive job growth, the unemployment rate fell from 7.1% in August to 6.5% in November, below its February level at the start of trade tensions. For some, this raises questions about the appropriateness of the central bank's interest rate cuts this fall, as well as the possibility of a reversal in the short term. We do not share this view and anticipate that the next interest rate hikes will not occur before the fourth quarter of 2026. First, the extent of the labour market recovery remains to be confirmed, as another employment survey (EERH, conducted among businesses) shows less favourable results, and business surveys reveal sluggish hiring intentions. Furthermore, we believe that interest rates continue to put pressure on the current economy. It should be noted that the recent cuts in the key interest rate, announced in September and October, have had no downward impact on 5-year rates, on which many household and business loans are based. One need only look at the weakness of the country's real estate sector and the moderate growth in household credit to conclude that rates are not particularly stimulating in the current uncertain environment. Not to mention that mortgage borrowers will have to cope, on average, with a significant interest payment shock in 2026. We anticipate GDP growth limited to 1.2% in 2026, held back by demographics, after 1.7% in 2025. This scenario incorporates economic weakness in the fourth quarter, but forecasts a gradual improvement next year (1.7% growth Q4/Q4); however, this improvement assumes an easing of trade tensions, which would allow for a rebound in investment, stimulated by Ottawa's new policies, such as deregulation, accelerated depreciation and openness to natural resource development.

Canada: The economy is surprisingly resilient despite uncertainty

Citi Economic surprise index for Canada and United States



NBC Economics and Strategy (data via Bloomberg)

Investment Strategy

Global equities extended their winning streak in Q4, albeit with heightened volatility and more subdued returns compared to the robust gains seen during the summer months. Canadian equities outperformed once again, supported by strong performances from banks and gold miners. On the other hand, U.S. equity gains were more restrained as enthusiasm surrounding artificial intelligence cooled, with investors rotating toward more attractively valued laggards, notably in the healthcare sector. In fixed income, the Canadian bond universe ended the quarter with slight losses, as yields climbed following a series of stronger-than-expected jobs data.

Turning to the macro backdrop, the current environment has become particularly challenging to navigate for U.S. policymakers. While inflation remains stubbornly above target because of tariffs, the labour market has weakened noticeably: job creation has slowed to a crawl, and the unemployment rate sits at its highest level since 2021. Complicating matters even further, the employment landscape is also shaped by structural forces such as tighter immigration policies, which constrain labour supply, and the growing adoption of artificial intelligence, which may already be dampening demand for workers.

Under these conditions, both North American central banks elected to proactively cut their benchmark rates, and the Federal Reserve is expected to further cut rates twice in 2026, gradually moving its policy stance to neutral. On the fiscal side, the positive impact of the One Big Beautiful Bill should start being felt more meaningfully at the start of the year through lower household tax burdens and incentives for added business investment.

Looking ahead, our base case scenario calls for continued economic growth in 2026, benefiting from both monetary easing and fiscal stimulus. However, risks remain two-sided: on the downside, a further deterioration of the labour market would prove problematic, particularly if the current “low hiring, low firing” dynamic shifts toward more meaningful layoffs; on the upside, stronger-than-expected productivity gains from AI-driven investment could bolster economic growth while also keeping inflationary pressures in check. However, with so much stimulus in the pipeline, any disappointment on the productivity front might reignite concerns about economic overheating. In any case, political uncertainty, driven by upcoming midterm elections in the U.S. and a leadership change at the Federal Reserve, should keep market volatility at a relatively elevated level throughout the year, much as it was during the final quarter of 2025.

Against this backdrop, we maintained our moderate risk-on stance through an overweight in equities relative to fixed income. Within equities, we decreased our allocation to the EAFE region and increased our allocation to the United States, the latter benefiting from a stronger track record and a more favourable outlook when it comes to earnings growth, which is going to be key next year. Finally, we remain overweight Canadian and Emerging Markets equities, reflecting strong relative momentum, positive earnings prospects and sector compositions that are well aligned with the current environment.

Model portfolios	Asset Class	Minimum/ Maximum	Benchmark	Recommended Weighting	Change from Previous Quarter
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.	Cash equivalents	0% to 20%	5.0%	3.00%	0.00%
	Fixed income (duration: 6.0 years)[1]	60% to 100%	70.0%	69.00%	-1.50%
	Canadian equities	0% to 30%	8.0%	9.50%	0.50%
	U.S. equities		8.0%	9.00%	0.50%
	Foreign equities		4.0%	4.50%	0.50%
	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.	Cash equivalents	0% to 20%	5.0%	3.0%	0.0%
	Fixed income (duration: 6.0 years)[1]	45% to 80%	55.0%	53.0%	-2.5%
	Canadian equities	20% to 45%	14.0%	16.0%	1.0%
	U.S. equities		14.0%	15.5%	1.0%
	Foreign equities		7.0%	7.5%	0.5%
	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.	Cash equivalents	0% to 20%	5.0%	3.0%	0.0%
	Fixed income (duration: 6.0 years)[1]	30% to 65%	40.0%	38.0%	-2.5%
	Canadian equities	30% to 65%	18.0%	20.0%	1.0%
	U.S. equities		18.0%	19.5%	1.0%
	Foreign equities		9.0%	9.5%	0.5%
	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.	Cash equivalents	0% to 25%	5.0%	3.0%	0.0%
	Fixed income (duration: 6.0 years)[1]	20% to 45%	30.0%	28.0%	-2.5%
	Canadian equities	40% to 75%	22.0%	24.0%	1.0%
	U.S. equities		22.0%	23.5%	1.0%
	Foreign equities		11.0%	11.5%	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.	Cash equivalents	0% to 30%	5.0%	2.5%	-0.5%
	Fixed income (duration: 6.0 years)[1]	0% to 30%	15.0%	14.00%	-2.00%
	Canadian equities	55% to 100%	26.0%	28.00%	1.00%
	U.S. equities		26.0%	27.00%	1.00%
	Foreign equities		13.0%	13.5%	0.5%
	Alternative investments[2]	0% to 30%	15.0%	15.0%	0.0%

1 Recommended Duration.

2 Benchmark: 3-month T-Bills, Global Infrastructure and Gold.

Forecast	2023	2024	2025 (Forecast)	2026 (Forecast)
Gross Domestic Product %				
Canada	2.0	2.0	1.7	1.2
U.S.	2.9	2.8	2.0	2.4
Inflation %				
Canada	3.9	2.4	2.1	2.3
U.S.	4.1	3.0	2.7	2.8

	December 2025		June 2026		December 2026	
	Canada	U.S.	Canada	U.S.	Canada	U.S.
Rates %						
Short-term rates (T-bills, 91-day)	2.19	3.54	2.25	3.30	2.60	3.35
10-year bond yields	3.44	4.19	3.35	4.15	3.35	4.30
30-year bond yields	3.88	4.86	3.75	4.75	3.75	4.90
Canadian dollar	US $0.73		US $0.73		US $0.76	