

Investment Strategy

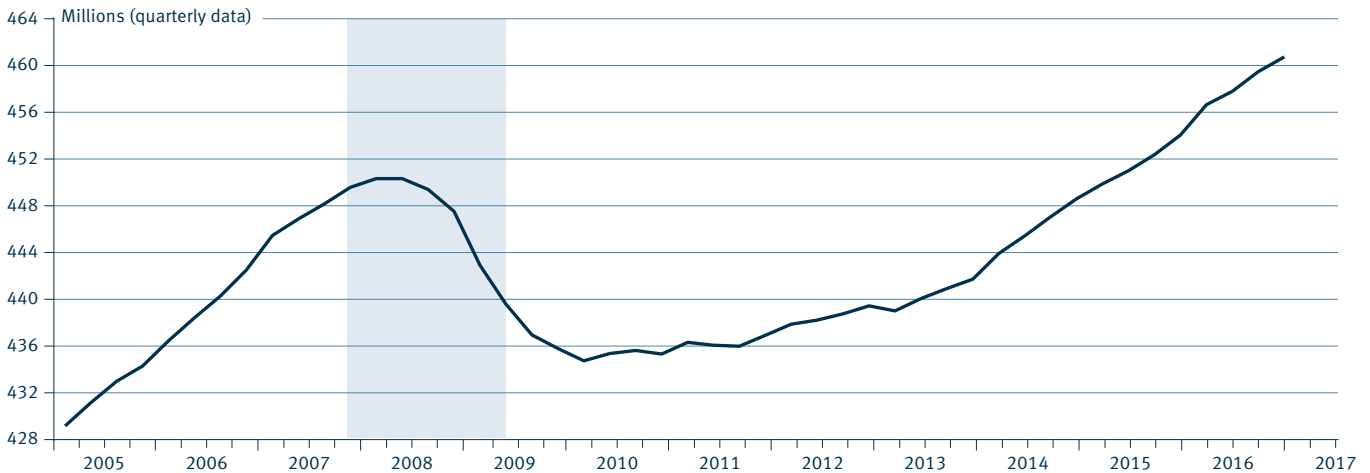
World

The global economy continues to improve with world trade volume expanding at its fastest pace since 2011 so far in 2017. And with trade outpacing industrial output for a third consecutive quarter, the ratio of industrial production to trade volume (a proxy for inventories) has fallen to a four-year low. That bodes well for stronger economic

activity and a continued uptrend in job creation. As the chart below shows, employment in the advanced economies surged 6.6 million in the last year. With business confidence hovering at pre-recession highs, corporations should continue adding to head counts. We expect global real GDP to expand at a rate of close to 3.5% in 2017.

World: This is finally starting to look like an expansion

Total employment in the advanced economies (G7 and rest of EU 28)



NBF Economics and Strategy (OECD at <http://stats.oecd.org/Index.aspx?DataSetCode=STLABOUR#>)

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United States

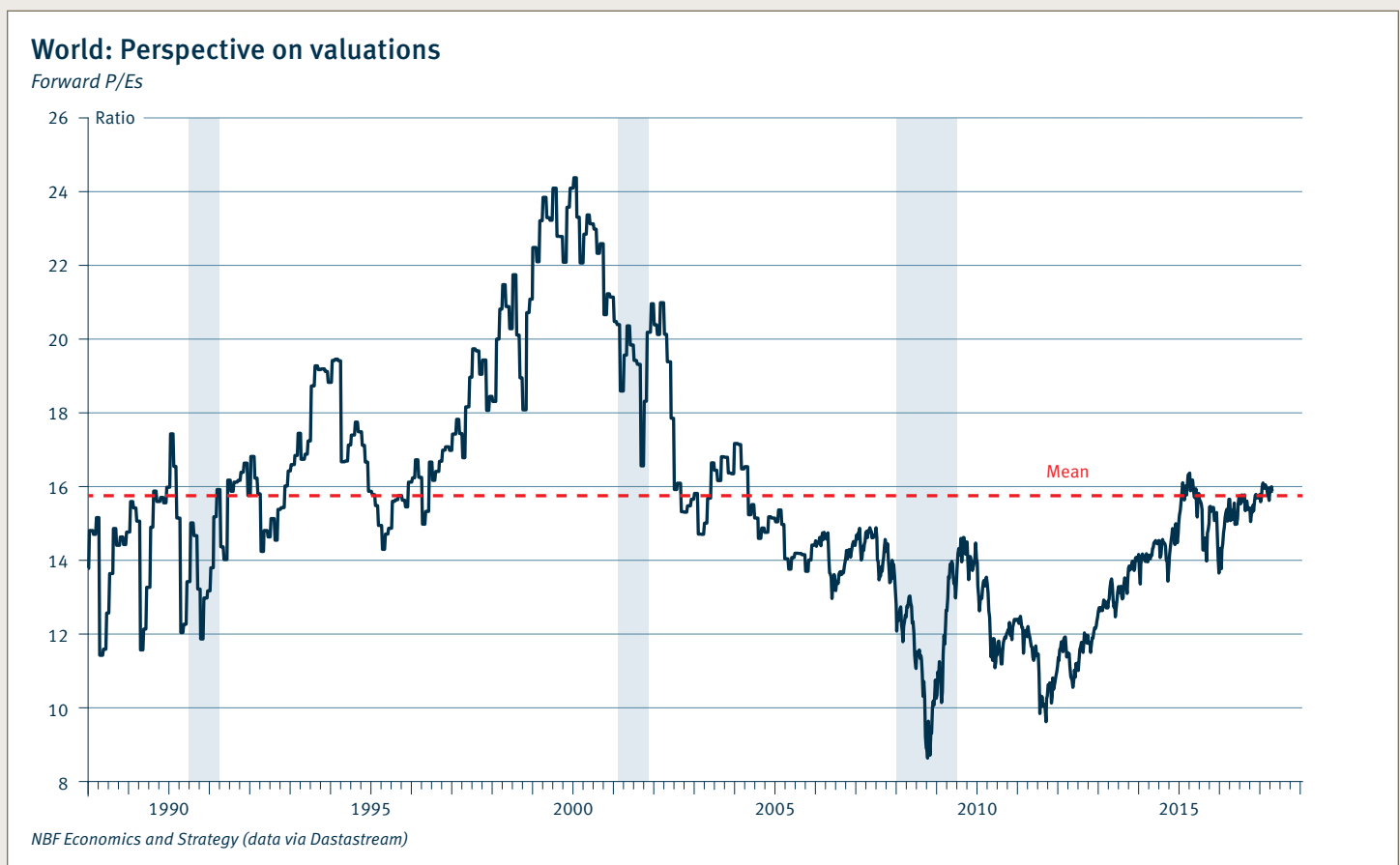
The U.S. economy is bouncing back nicely after a rough start to the year. GDP is set to expand above 2% through year-end, buoyed by a rebound in business investment and healthy labour market conditions. The unemployment rate fell to a 16-year low of 4.3% in May, a development that should help strengthen the domestic

economy. Encouraged by solid employment and the apparent resurgence of industrial output and consumer spending, the Federal Reserve will likely raise interest rates again in the coming months. Low inflation, however, means that monetary policy is unlikely to turn restrictive anytime soon.

Financial Markets

Global equity markets continue to do well in 2017. Their year-to-date total return is 9.3% and, encouragingly, most of the main regions have continued to contribute in Q2. Better-than-expected economic growth is of course good news for profits. Trailing earnings are rising for the first time in more than two years and the bottom-up consensus of equity analysts for 12-month forward earnings growth

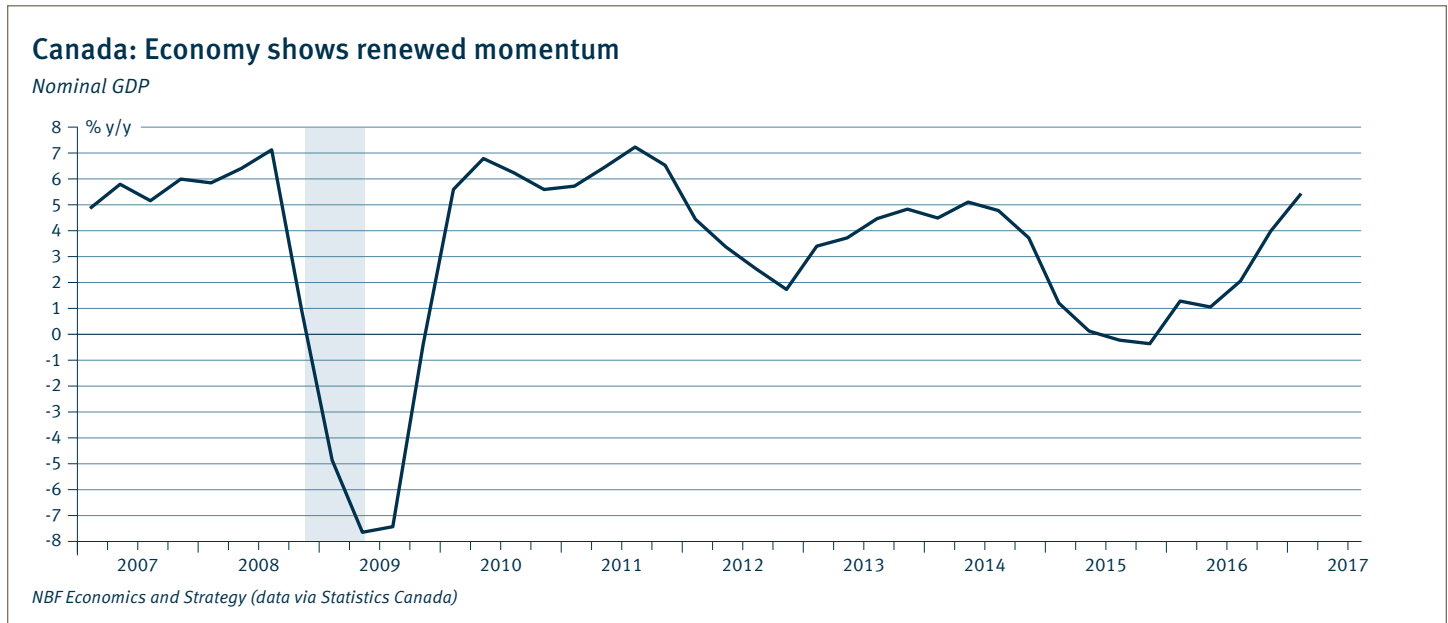
is being revised upward for the first time since 2011. This development is critical, since P/E expansion is less likely at this stage of the economic cycle (which has only recently entered its mature phase). Since we find these earnings expectations reasonable, we are comfortable with current valuations.



Canada

Canada's real GDP grew 3.7% annualized in the first quarter of 2017. While trade was a drag on the economy courtesy of rising imports, it was more than offset by sharp gains for domestic demand. There were indeed healthy gains for consumption spending, residential investment, government expenditures and even business investment.

Nominal GDP also grew a massive 8.3% annualized, a positive for public finances. We expect the Bank of Canada to alter its language in the coming months and signal the possibility of tighter monetary policy soon.



Investment Strategy

Growth figures are usually weaker in the first quarter of the year, and 2017 is no exception, with U.S. GDP coming in lower than expected. The Federal Reserve dismissed those figures as transitory in nature and expects the economy to rebound in the near future. Wherever you look, there are no signals flashing red: Employment growth is still healthy and continuously putting a dent in unemployment rates; manufacturing is still in expansionary mode; and business confidence is close to post-election highs. Such an environment remains conducive for the Fed to continue with its rate hike plan, and we still expect a total of three hikes in 2017. Bond yields have somewhat weakened since mid-December, a result of the increased unlikelihood that Mr. Trump will be able to implement his reflationary policies. However, in light of the Fed's stance, we still believe yields will have a tendency to appreciate in the medium term, and we suggest a short-duration position or investment in assets that offer protection in a rising yield environment. For credit, we favour investment grade corporate assets over other riskier fixed income products, as we believe further improvement in credit spreads for the latter offer little reward for the risk taken.

In Canada, Q1 growth was strong, but some headwinds are expected going forward. Energy prices have weakened recently and the U.S. administration sent worrying signs about trade agreements – the

implementation of a 20% duty on softwood lumber and NAFTA threats are indications of the tough negotiations to come. These events have put the loonie under pressure, and despite the currency's weakness since February, we would advise caution before implementing a hedge and suggest a neutral position for the time being.

For equities, the likelihood of a fiscal stimulus and tax reform boon are becoming less and less likely, with the President stuck between Democratic opposition on one hand and Republican hardliners on the other, which makes the legislation process more complex than initially thought. However, this disappointment has been offset by surprisingly strong corporate earnings for Q1 2017. Given that markets still haven't found a way to generate any meaningful momentum and remain in wait-and-see mode, we are worried about high valuation levels and what they will mean for returns on the medium- to long-term horizon. However, we cannot ignore the current economic environment, which remains healthy, and this economy vs. valuation conflict is the reason we remain neutral on equities for the time being. Regionally, we prefer European equities over their North American counterparts, as financial ratios are more attractive in the former and we think most of the political risks have subsided or are already priced-in.

Income Portfolio	Asset Class	Minimum/Maximum	Benchmark	Recommended Weighting	Change from Previous Quarter
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%	9.5%	0.0%
	Fixed income (duration: 5.25 years) ¹	60% to 100%	70.0%	65.0%	0.0%
	Canadian equities	0% to 30%	7.5%	7.5%	0.0%
	U.S. equities		7.5%	7.5%	-0.5%
	Foreign equities		5.0%	5.5%	0.0%
	Alternative investments ²	0% to 10%	5.0%	5.0%	0.5%
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%	9.5%	0.0%
	Fixed income (duration: 5.25 years) ¹	45% to 80%	55.0%	50.0%	0.0%
	Canadian equities	20% to 45%	14.0%	14.0%	0.0%
	U.S. equities		14.0%	14.0%	-0.5%
	Foreign equities		7.0%	7.5%	0.5%
	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.	Cash equivalents	0% to 20%	5.0%	9.0%	-0.5%
	Fixed income (duration: 5.25 years) ¹	30% to 65%	40.0%	35.0%	0.0%
	Canadian equities	30% to 65%	17.5%	17.5%	0.0%
	U.S. equities		17.5%	17.5%	-0.5%
	Foreign equities		10.0%	11.0%	1.0%
	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.	Cash equivalents	0% to 25%	0.0%	4.5%	-0.5%
	Fixed income (duration: 5.25 years) ¹	25% to 45%	35.0%	29.5%	0.0%
	Canadian equities	40% to 75%	20.0%	20.0%	0.0%
	U.S. equities		20.0%	20.0%	-0.5%
	Foreign equities		15.0%	16.0%	1.0%
	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.	Cash equivalents	0% to 30%	0.0%	5.0%	-1.0%
	Fixed income (duration: 5.25 years) ¹	0% to 30%	20.0%	13.5%	0.0%
	Canadian equities	55% to 100%	22.5%	22.5%	0.0%
	U.S. equities		22.5%	22.5%	-0.5%
	Foreign equities		20.0%	21.5%	1.5%
	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	Forecast				June 2017		December 2017		December 2018	
	2015	2016	2017	2018	Canada	U.S.	Canada	U.S.	Canada	U.S.
	Gross Domestic Product %					Rate %				
Canada	0.9	1.5	2.4	2.0	Short-term rates (T-Bills, 91-Day)					
U.S.	2.6	1.6	2.2	2.4	0.51	1.08	0.63	1.33	1.37	2.08
Inflation %					10-year bond yields					
Canada	1.1	1.4	1.8	2.0	1.57	2.32	2.18	2.95	2.68	3.30
U.S.	0.1	1.3	2.3	2.2	30-year bond yields					
					2.21	2.97	2.75	3.53	3.09	3.76
					Canadian dollar		US\$0.74	US\$0.76	US\$0.77	

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