Spring 2025
Building your financial future

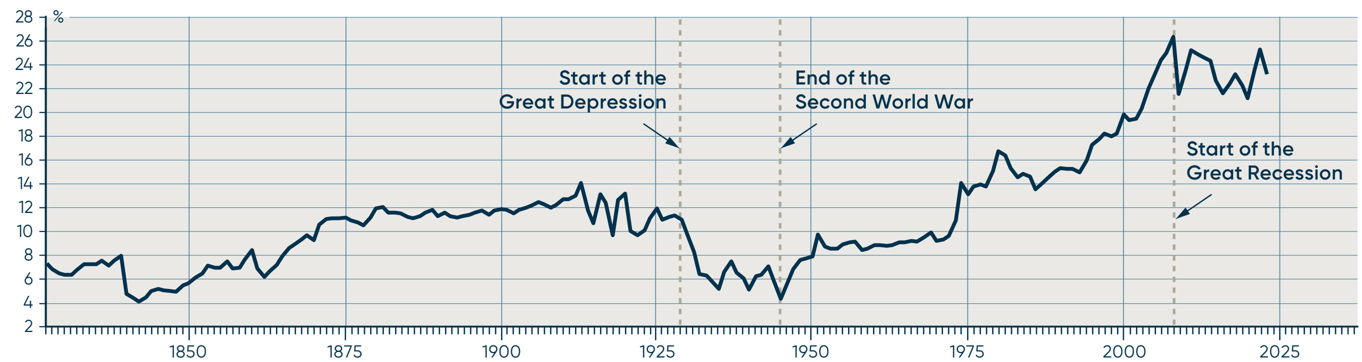
Investment Strategy

World

On the economic front, by far the main topic of discussion in recent weeks has been the intensification of the trade war launched by President Trump upon coming to power. Recent developments seem to have sown some doubt as to the survival of the international economic and geopolitical order established after the Second World War, in which confidence in a system of rights overseen by the United States has encouraged a phenomenal increase in international trade. Although still some way off, the prospect of the gradual dismantling of this system is now forcing economic players to consider the potential consequences. As for the stock market indices, their conclusions seem quite clear judging by the significant declines recorded in recent weeks: deglobalization is unlikely to be favourable to businesses, whether they are based in the United States or not. And since what is negative for corporate profits also tends to be negative for hiring and investment, the erection of trade barriers also risks translating into a slowdown in growth. Even more worrying, this slowdown might not be accompanied by significant relief on the inflation front. Because if the reversal of the secular trend towards globalization were to be confirmed, the national interest would be likely to take precedence over the notion of comparative advantage to justify business decisions, which would create deadweight losses in the economy and lead to a rise in prices. With this in mind, the protectionist shift in the United States can hardly be considered positive for the global economy. And yet, it could still have constructive repercussions in some regions, if only by encouraging some governments to do more to support their economies. The change of tone in Washington indeed seems to have convinced China and Germany to loosen their purse strings to boost growth; however, it is unlikely that these efforts will fully offset the increasingly strong headwinds on the international trade front. In this context, global growth could be limited to 3.0% this year, reflecting very high levels of uncertainty and a less vigorous economy than anticipated in the United States. Expansion is expected to remain modest next year at 3.1%.

World: the end of an era?

Global goods exports as a percentage of GDP



NBC Economics and Strategy (data via Fouquin and Hugot [CEPII 2016], the IMF and the CPB)

In this issue

NATIONAL BANK FINANCIAL
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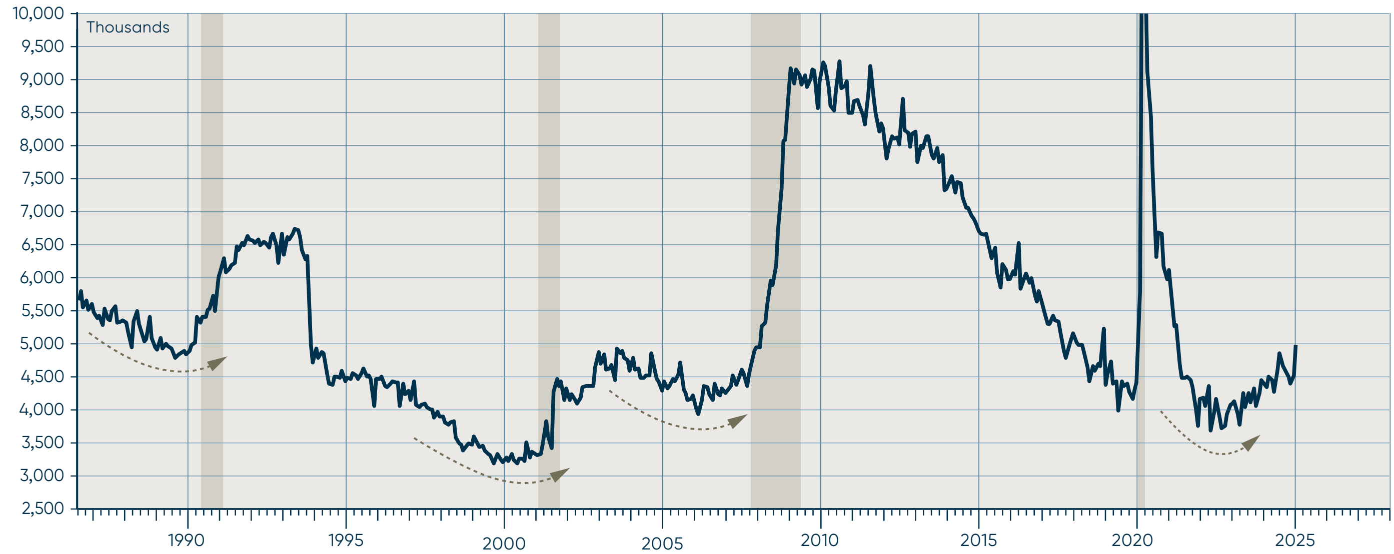
United States

While the unpredictability, transience and variability of trade policies emanating from Washington make it impossible to calculate their potential economic impact with any degree of accuracy, it is safe to say that it will be negative. The U.S. economy is certainly less dependent on international trade than that of most of its trading partners, but it is not immune to concerted counter-tariffs. Not to mention the hit that tariffs, or simply the threat of tariffs, are likely to have on business investment and, consequently, on hiring. The potential impact on the stock markets must also be taken into account, because while the economy itself is not very exposed to foreign demand, many large listed companies are. And while the stock market should not be confused with the economy, it cannot be denied that the link between the two has strengthened in recent years, with equities representing an ever-increasing share of household assets. It is true that the disruptive potential of tariffs could be overestimated, but it is a fact that this additional layer of uncertainty comes at a time when the U.S. economy appears vulnerable, making the situation more worrying. In addition to the upheavals in international trade, weak consumption growth indeed appears to be weighing on the economy at the moment, and things could get worse judging from a rapid deterioration in consumer confidence. This latter may partly reflect the increasing difficulty of poorer households to service their debts, but it also testifies to growing concern about the policies implemented in Washington and their potential impact on employment prospects. Hiring certainly seems to be continuing at a steady rate outside the federal civil service, but recent months have nevertheless been marked by a significant increase in underemployment, which has proven its value as a leading economic indicator in the past. In this highly uncertain context, we expect growth to slow in the United States, but we have not yet thrown in the towel on the continuation of the economic cycle. We recognize, however, that this will depend largely on the fiscal path adopted by Washington. Pending more details on this front, we expect real GDP growth of 2.1% this year and only 1.6% next year.

U.S.: underemployment on the uptrend

People working part time for economic reasons



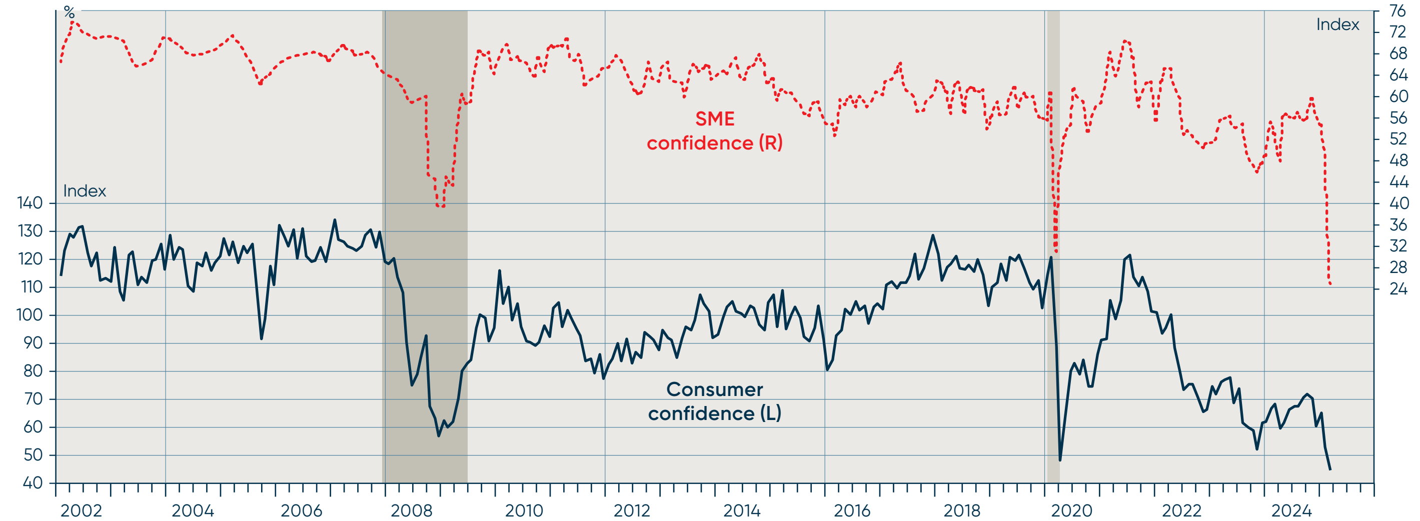
NBC Economics and Strategy (data via Bloomberg)

Canada

Canada is currently caught between a rock and a hard place, with high tensions with its main trading partner, which is leaning towards protectionism. Canada has already had a 25% tariff imposed on steel and aluminum by the United States. A 25% tariff was also initially announced by the president on all goods with the exception of 10% on energy, but products that comply with the CUSMA were ultimately exempted. The fact remains that the situation is highly uncertain and that we will have to wait until April to see more clearly what tariffs the United States intends to introduce on the basis of reciprocity for each country. We are still hoping that the U.S. administration will recognize Canada as a valuable trading partner and grant it preferential status. Canada is the United States' second-largest trading partner, accounting for 14% of its trade in goods, but only 5% of its total trade deficit. Excluding the energy sector, which the Americans need so much for their reindustrialization, their country has a trade surplus. Furthermore, 66% of Canadian exports to the United States are used as inputs in American production, which is much higher than the average of 45% of the United States' other trading partners. Canada is therefore an important partner for American companies that produce on American soil, and not a competitor seeking to capture market share with American consumers. This current uncertainty is regrettable when conditions seemed to be in place for a soft landing of the economy, with the central bank having been able to lower its policy rate by 225 basis points since June 2024. In 2024Q4, GDP grew by 2.6% thanks to strong domestic demand (+5.6%), which allowed the labour market to stabilize after a slow deterioration since the first interest rate hikes in 2022. The first quarter of 2025 could be temporarily boosted by strong exports, as U.S. companies sought to stock up on Canadian products before the potential introduction of tariffs. Subsequent trends could be less favourable. The collapse in SME confidence is jeopardizing the improvement in the labour market and investment. Consumer confidence has also hit a record low, suggesting weak consumption unless tensions with our southern neighbour are significantly reduced. We expect GDP growth of only 1.2% in 2025, with the economy weakening in the second and third quarters and an average unemployment rate of 7.0% this year (6.6% in February).

Canada: confidence plunged amid tariff uncertainty

Conference Board consumer confidence index and CFIB Business barometer (SME confidence)



NBC Economics and Strategy (data via Conference Board of Canada and CFIB)

Investment Strategy

After starting 2025 confident that the new U.S. administration would prioritize policies that would promote growth and limit inflation, markets quickly had to revise their expectations in the face of the rashness with which President Trump wielded—and acted upon—the tariff threat. Yet, while this context generated a general increase in volatility on financial markets, the irony is that U.S. stocks ended the quarter more affected than the equities of the countries targeted by the tariffs, with the S&P 500 dragged down by its tech giants, whose exceptionalism is increasingly being called into question. On the other hand, while the S&P/TSX escaped without too much damage, the biggest surprise came from the strong outperformance of European equities, as American hostility helped create a sense of urgency for more pro-growth fiscal policies in Germany.

On the macroeconomic front, the story of the first quarter can be summed up in three points. Firstly, there is a realization that 2025 will inevitably see lower economic growth and higher inflation than previously expected, as a direct consequence of increased U.S. tariffs that far surpass those put in place during the previous trade war launched by President Trump in 2018. Secondly, there is a high degree of uncertainty that is bound to surround any economic outlook as the U.S. administration's agenda unfolds, as will the reaction of the rest of the world. Finally, the emergence of certain signs that uncertainty itself is beginning to adversely impact U.S. consumers, who, it should be remembered, are the cornerstone of economic growth in the United States.

Consequently, recession risks have undeniably increased since the last quarter, and the reaction of the labour market, which remains in good shape for the time being, will need to be closely monitored for further clarity in the months ahead. Nevertheless, our baseline scenario still sees the economy growing at a moderate pace, albeit with above-target inflation to contend with for some time to come.

In this volatile environment, we maintain a balanced allocation between equities and bonds, as we see these two asset classes as presenting complementary risk profiles and similar return prospects over a twelve-month horizon. Geographically, we reduced the size of our overweight in North American equities at the end of February and remain on the lookout for signals likely to support a sustained rotation toward international equity markets.

All in all, we believe that now is not the time for major deviations or high-risk strategies, and we encourage investors to remain diversified rather than trying to predict a fundamentally unpredictable U.S. administration.

MODEL PORTFOLIOS

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%	3.0%	0.0%
	Fixed income (duration: 7 years)[1]	60% to 100%	70.0%	72.0%	0.5%
	Canadian equities	0% to 30%	8.0%	8.0%	0.0%
	U.S. equities		8.0%	8.5%	-0.5%
	Foreign equities		4.0%	3.5%	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.	Cash equivalents	0% to 20%	5.0%	3.0%	0.0%
	Fixed income (duration: 7 years)[1]	45% to 80%	55.0%	57.0%	0.0%
	Canadian equities	20% to 45%	14.0%	14.0%	0.0%
	U.S. equities		14.0%	14.5%	-0.5%
	Foreign equities		7.0%	6.5%	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: 7 years)[1]	30% to 65%	40.0%	42.0%	0.0%
	Canadian equities	30% to 65%	18.0%	18.0%	0.0%
	U.S. equities		18.0%	19.0%	-0.5%
	Foreign equities		9.0%	8.0%	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: 7 years)[1]	20% to 45%	30.0%	32.0%	0.0%
	Canadian equities	40% to 75%	22.0%	22.0%	0.0%
	U.S. equities		22.0%	23.0%	-0.5%
	Foreign equities		11.0%	10.0%	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.	Cash equivalents	0% to 30%	5.0%	3.0%	0.0%
	Fixed income (duration: 7 years)[1]	0% to 30%	15.0%	17.0%	0.0%
	Canadian equities	55% to 100%	26.0%	26.0%	0.0%
	U.S. equities		26.0%	27.0%	-1.0%
	Foreign equities		13.0%	12.0%	1.0%
	Alternative investments[2]	0% to 30%	15.0%	15.0%	0.0%

1 FTSE TMX Canada Universe Index
2 Includes 3-month T-bills, global infrastructure and gold.

FORECAST

			Forecast	
	2023	2024	2025	2026
Gross Domestic Product %				
Canada	1.5	1.5	1.2	1.0
U.S.	2.9	2.8	2.1	1.6
Inflation %				
Canada	3.9	2.4	2.3	2.0
U.S.	4.1	3.0	2.6	2.3

	June 2025		December 2025		December 2026	
	Canada	U.S.	Canada	U.S.	Canada	U.S.
Rate %						
Short-term rates (T-bills, 91-day)	2.10	4.05	1.95	3.55	2.70	3.20
10-year bond yields	2.65	4.15	2.65	3.85	2.95	4.10
30-year bond yields	2.90	4.40	2.85	4.15	3.05	4.30
Canadian Dollar	US $0.69		US $0.71		US $0.73	