

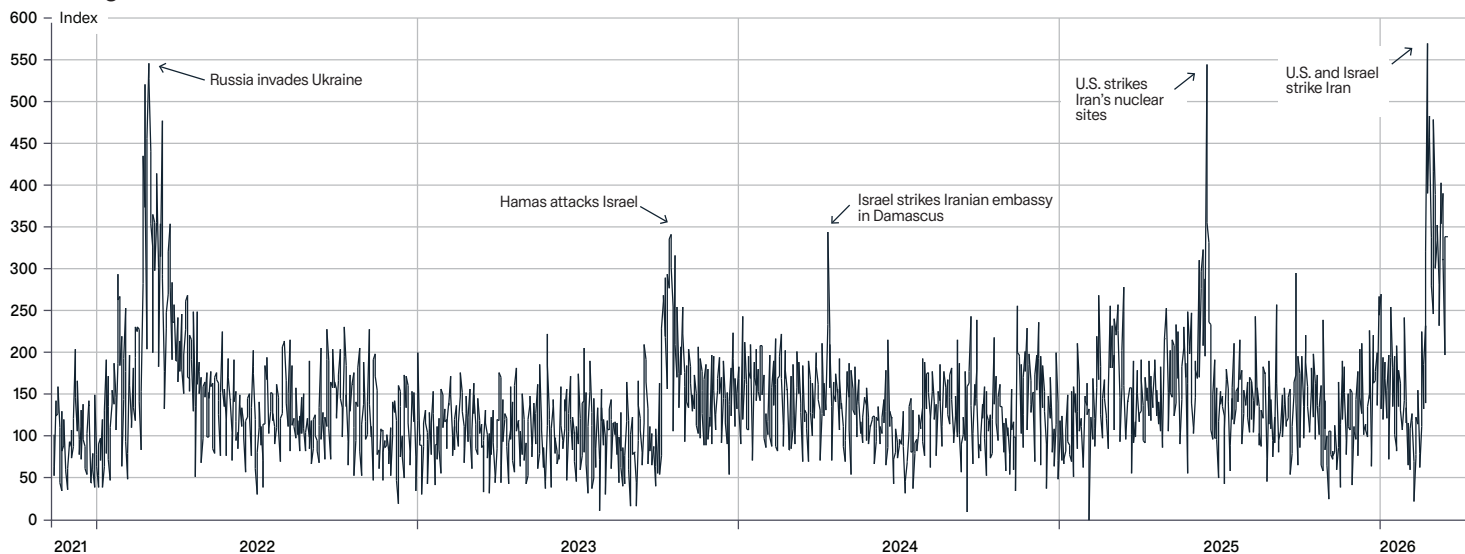
Investment Strategy

World

On the morning of February 28, the world woke up to the news that the United States and Israel had launched devastating airstrikes against Iran. Although these actions were not entirely unexpected, combined with the Islamic Republic's deadly retaliation, they nonetheless pushed uncertainty to levels not seen since Russia's invasion of Ukraine. From an economic perspective, it is the closure of the Strait of Hormuz that risks having the most serious consequences, given the importance of this shipping lane to the trade of numerous raw materials such as oil and its derivatives, natural gas, and fertilizers. The extent of the repercussions will certainly depend on the duration of the closure, but it is already safe to assume that it will lead to a slowdown in global growth and a rise in inflation. Geographically, regions that are more dependent on energy exports from the Middle East, such as Europe and Asia, appear to be more vulnerable. The situation could worsen further if rising inflation forces central banks to tighten monetary policy, but we are not there yet. Provided an agreement is reached to reopen shipping lanes within a reasonable timeframe, we believe that central bankers around the world will have the necessary flexibility to avoid raising interest rates too much in the face of a temporary rise in inflation. While acknowledging that the uncertainty surrounding our forecasts has increased significantly, we continue to expect global economic growth to be around its potential this year, thanks in particular to expansionary fiscal policies in the United States, Germany, and Japan. We forecast growth of 3.4% in 2026 and 3.3% in 2027. Needless to say, the risks associated with this scenario are skewed to the downside.

World: Another month, another geopolitical twist

General government structural balance



NBC Economics and Strategy (data via the IMF)

In this issue

- World 1
- United States 2
- Canada 3
- Investment Strategy 4
- Model Portfolios 5
- Forecast 5

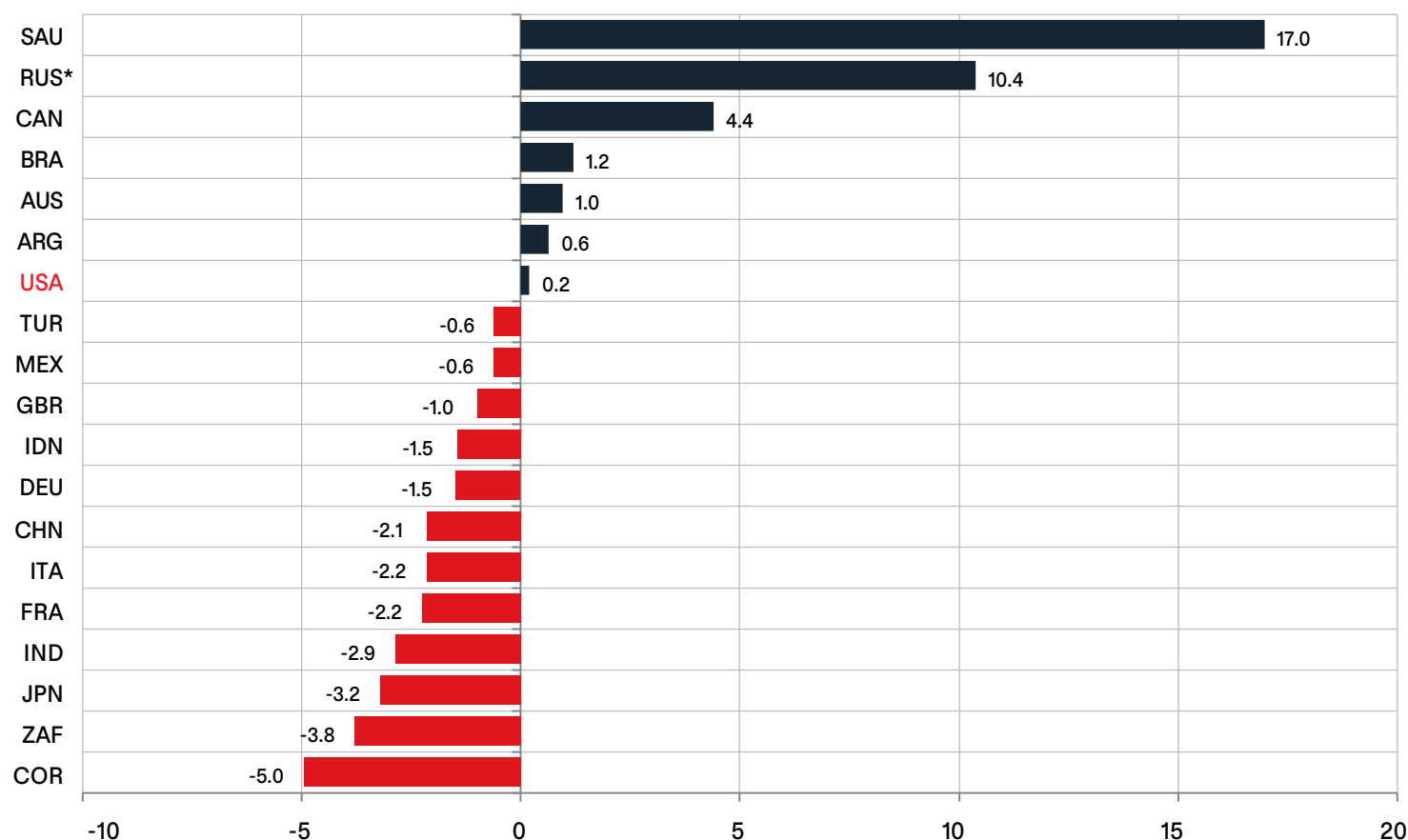
United States

Assuming once again that the conflict in the Middle East is resolved in the near future, the direct economic impact on the United States could be relatively limited. Although the world's largest economy is not entirely immune to rising energy prices, it is nevertheless in a much better position than before—and compared to other advanced economies—to cope with them. Having become the world's leading producer of oil and natural gas, the United States now posts a slight trade surplus in these two sectors, meaning that the negative effects of rising energy prices on consumer purchasing power should be partially offset by improved prospects for U.S. energy producers. The possibility that the Federal Reserve will refrain from easing monetary policy amid higher inflation still remains a risk, especially since price pressures were already intensifying even before the conflict began. But even in a scenario where the interest rate path is more restrictive, we believe the U.S. economy would continue to perform well. This is partly because it entered the current crisis from a position of strength, largely due to a wave of investment in the artificial intelligence sector. We acknowledge, however, that for this trend to continue, strong investment prospects from major tech companies alone will

not suffice. Consumption, which accounts for about 70% of the total economy, will also need to step up, and in this regard, some questions remain. The main one concerns the slowdown in job creation observed in recent months, which is reflected in a deceleration in the growth rate of real disposable income. However, we believe a recovery on this front is possible in the second half of the year, as the positive effects of the One Big Beautiful Bill begin to take hold in the economy. Our relative optimism regarding the labour market also stems from the fact that the weakness reported by the main surveys does not appear to be confirmed by other indicators. Job creation reported by the ADP report, which is limited to the private sector, has remained comfortably positive in recent months. Initial jobless claims, which are indicative of layoff levels, also remain very low by historical standards. If our forecasts regarding the future resilience of the job market prove accurate, consumption should continue to grow at a steady pace in the coming months. This expansion, combined with solid investment spending, translates in our baseline scenario to GDP growth of 2.5% this year. For 2027, we expect growth of 2.1%.

U.S.: Less exposed to a rise in energy prices

Trade balance of oil, oil products, and natural gas as a percentage of nominal GDP by country (2024 unless otherwise specified)



*Latest data are from 2021

NBC Economics and Strategy (data via the UN Comtrade database)

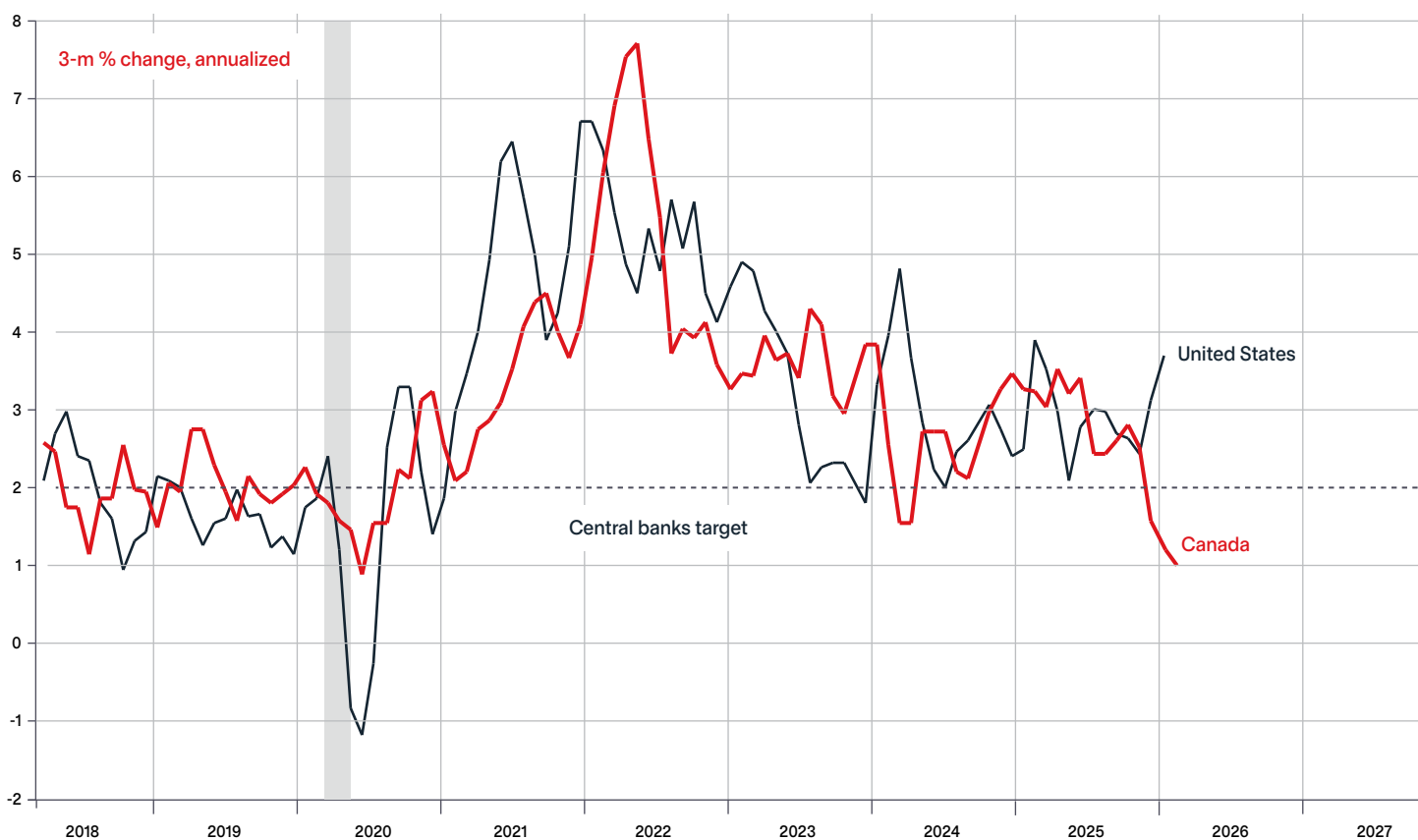
Canada

The year 2025 was marked by a barrage of tariffs from Washington, while in 2026, geopolitical tensions have now taken centre stage. Although Canada is perceived as particularly vulnerable to U.S. protectionism, the oil shock is expected to prove relatively less damaging to its economy than to other countries. As the G7's largest net oil exporter, a rise in oil prices translates into a wealth effect through improved terms of trade, thereby supporting nominal GDP and government revenues, particularly in oil-producing provinces such as Alberta. That said, we do not anticipate significant gains in terms of real growth. Although a rise in oil prices typically tends to stimulate investment in the energy sector, the dynamics could be different this time, as the shock is currently viewed as transitory, as evidenced by the inverted futures curve. Thus, there is a risk that gains from improved terms of trade will be offset by rising energy costs for households. Despite the implications of the

oil shock for inflation—which we have revised upward to 2.5% in 2026—we continue to expect that the Bank of Canada will remain on the sidelines throughout 2026, barring a near-term resumption of oil flows through the Strait of Hormuz and a gradual decline in oil prices by year-end. The fact that inflation was under control prior to this shock allows the Bank of Canada to exercise patience, especially as the economy shows signs of fragility amid uncertainty stemming from trade tensions with the United States. The labour market has recently stumbled, primarily due to a sharp contraction in private-sector employment. We also believe it would be risky to raise interest rates while the housing market continues to deteriorate against a backdrop of population decline—a situation unprecedented in the history of the federation. GDP growth of 0.9% is expected this year (1.7% in 2025), barring a smooth renegotiation of the USMCA.

Canada: Inflation in a better position this side of the border

Core inflation measures in Canada (average CPI-Trim and CPI-Median)



NBC Economics and Strategy (data via Statistics Canada and BEA)

Investment Strategy

After a rather favourable start to the year, investors were quickly thrust into a pronounced regime of uncertainty, forced to contend simultaneously with significant disruptions on both the technological and geopolitical fronts. This environment has led to a marked increase in volatility across all financial markets—equities, bonds, currencies, and commodities—even though, at this stage, the damage observed remains relatively limited in light of the solid gains recorded in 2025.

While advances in artificial intelligence have raised legitimate questions for a number of companies that have historically benefited from substantial barriers to entry, the critical issue at present remains the near-total halt of maritime traffic at the exit of the Persian Gulf—by far the most decisive bottleneck for global energy flows.

At first glance, the latest economic data remained broadly aligned with our outlook. Corporate earnings growth has largely surprised to the upside, while the labour market has remained resilient, with a relatively stable unemployment rate, inflation showing no notable excesses, and central banks still lacking any urgency to alter their monetary policy. However, the generalized shock currently observed in commodity prices is materially altering the outlook and, more importantly, the balance of risks.

More specifically, while our base-case scenario continues to anticipate a continuation of economic growth—provided that a gradual recovery in maritime traffic in the Persian Gulf begins within a relatively short time frame—the risk of a stagflationary shock, with more severe consequences for global growth, nonetheless remains non-negligible.

Against this backdrop, we reduced the overall risk level of our tactical asset allocation strategy during the third week of March, bringing the equity allocation back to a neutral stance, offset by an increase in exposure to bonds.

From a geographic perspective, we also reduced our allocation to Canadian equities over the course of the quarter, seeking to crystallize profits on a position that had become increasingly sensitive to a pullback in gold prices—a scenario that indeed materialized in March.

Moreover, we maintain an overweight position in emerging markets at the expense of developed markets outside North America. In both cases, reliance on energy imports represents a significant risk to growth. However, more attractive valuations and stronger earnings growth prospects in emerging markets represent a meaningful comparative advantage relative to the EAFE region.

In sum, beyond the very real short-term risks, it is worth recalling that history offers an important lesson regarding the effects of geopolitical shocks on equity markets. In the vast majority of cases, periods of financial stress have been followed by a recovery over a one-year horizon or longer. As such, while the current situation must be taken with the utmost seriousness, it remains equally essential to avoid decisions driven by emotion and to remain focused to one's investment horizon—a horizon that, for most investors, is measured not in months, but in years.

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%	3.00%	0.00%
	Fixed income (duration: 6.0 years) ¹	60% to 100%	70.0%	70.00%	1.00%
	Canadian equities		8.0%	8.50%	-1.00%
	U.S. equities	0% to 30%	8.0%	8.50%	-0.50%
	Foreign equities		4.0%	5.00%	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%	55.0%	2.0%
	Canadian equities		14.0%	14.5%	-1.5%
	U.S. equities	20% to 45%	14.0%	14.5%	-1.0%
	Foreign equities		7.0%	8.0%	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%	40.0%	2.0%
	Canadian equities		18.0%	18.5%	-1.5%
	U.S. equities	30% to 65%	18.0%	18.5%	-1.0%
	Foreign equities		9.0%	10.0%	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: 6.0 years) ¹	20% to 45%	30.0%	30.0%	2.0%
	Canadian equities		22.0%	22.5%	-1.5%
	U.S. equities	40% to 75%	22.0%	22.5%	-1.0%
	Foreign equities		11.0%	12.0%	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%	0.5%
	Fixed income (duration: 6.0 years) ¹	0% to 30%	15.0%	15.00%	1.00%
	Canadian equities		26.0%	26.50%	-1.50%
	U.S. equities	55% to 100%	26.0%	26.50%	-0.50%
	Foreign equities		13.0%	14.0%	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				June 2026		December 2026		December 2027			
	2024	2025	2026	2027	Canada	U.S.	Canada	U.S.	Canada	U.S.		
Forecast	Gross Domestic Product %				Rates %							
	Canada	2.0	1.7	0.9	1.5	Short-term rates (T-bills, 91-day)						
	U.S.	2.8	2.2	2.5	2.1	2.30	3.35	2.40	3.20	2.80	3.20	
	Inflation %				10-year bond yields							
	Canada	2.4	2.1	2.5	2.0	3.40	4.15	3.40	4.20	3.45	4.35	
U.S.	3.0	2.7	2.9	2.6	30-year bond yields		3.90	4.80	3.85	4.90	3.90	5.00
Canadian dollar					US \$0.74		US \$0.76		US \$0.78			

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