Investment Strategy

World

After a dismal performance in 2016, advanced economies are now bouncing back nicely. OECD industrial output surged 5.3% annualized in Q2, the biggest quarterly increase since 2011. This was made possible by a further ramp up in global trade volumes, which reached a new record last quarter. In Japan, the economy has now been expanding for six consecutive quarters, the longest such streak since 2006. In Europe, economic sentiment is the highest in a decade, reflecting increased

confidence among both businesses and consumers. What's more, strong economic performance in the matured economies is complemented by continuing strength in emerging economies. As a result, global GDP growth is on track to accelerate to about 3.5% this year. While we expect a similar performance in 2018, that assumes governments around the world are able to successfully navigate risks posed by the rise of trade protectionism, elevated debt levels and geopolitical uncertainty.



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United States

The U.S. economy continued to expand in the third quarter. Data on employment creation and retail spending remain strong, confirming the main driver of growth, i.e., consumers, are in good shape. Industrial production is also ramping up as businesses replenish inventories and increase investment spending. While the hurricane

season may subtract from growth, a subsequent rebound led by reconstruction efforts is in the cards. We remain comfortable with our view that U.S. GDP growth will accelerate to more than 2% both this year and next. That should encourage the Fed to further reduce monetary accommodation.

Financial Markets

Global equities as measured by the MSCI AC hit a new high in August 2017, with positive contributions from all the major regions of the world. Most markets are being lifted by earnings growth rather than P/E expansion. The bottom-up consensus of equity analysts expects

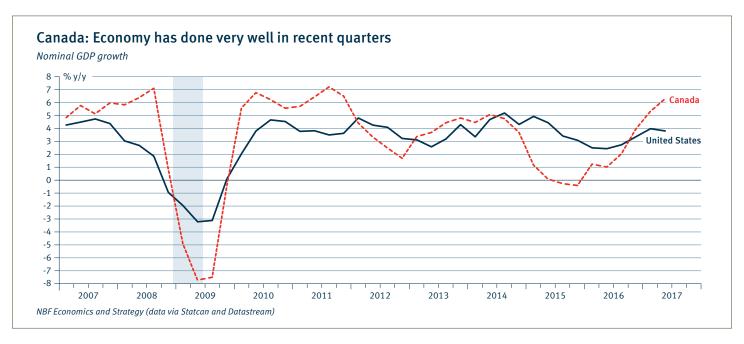
that MSCI AC earnings per share, spurred by the most synchronized global economic growth in more than a decade, will top 30 for the first time in more than a decade. For the time being, a favourable cyclical backdrop continues to trump geopolitical fears.



Canada

A stronger-than-expected first half of the year prompts us to upgrade our Canadian GDP growth forecast for 2017 to 3.0%. Solid growth is being complemented by a healthy labour market, the latter creating jobs in numbers not seen in seven years. That, coupled with the housing wealth effect is boosting consumption. We have also raised

our 2018 GDP growth forecast to reflect provincial fiscal stimulus in Ontario, Quebec and British Columbia. The improving outlook and growing financial stability risks associated with housing and household debt arguably take precedence over the problem of low inflation, and hence warrant tighter monetary policy from the Bank of Canada.



Investment Strategy

Geopolitical risks have taken the forefront recently and somewhat increased fears that equities will eventually turn a corner if a risk-off mindset takes hold in light of negative headlines. However, our analysis has shown that the underlying global macro environment usually has a much bigger influence on asset returns and, as the year progresses, we still expect the trend of positive growth to continue. In the U.S., despite some disappointment around the failure of the president to deliver on his campaign promises, consumer confidence remains high, labour markets are healthy and the manufacturing sector is still flashing green. In Canada, the downturn tied to the energy price collapse now seems like a distant memory as GDP growth is topping even the most aggressive market estimates. Global expansion, especially in emerging markets, is lifting commodity demand and should bode well for the country and the S&P/TSX, which is heavily tilted towards that sector. Rising yields also help financials, which are a big proportion of Canadian equities. Consequently, we suggest you favour them over their U.S. counterparts.

In currencies, synchronized economic growth is usually met with a weakening U.S. dollar as foreign central banks have more incentives to normalize monetary policy. The best example of this situation can be found by looking at the Bank of Canada, which has now turned the table on the Fed and is much more aggressive towards future hikes than its southern neighbour. In light of this developing stance, the loonie has been on an upswing, but our indicators are pointing towards signs that the move has been overdone and we expect the currency pair to trade in a range for the rest of the year.

The difference of tone between the Bank of Canada and the Fed is also reflected in our fixed income allocation, as we favour a transition away from Canadian fixed income products towards U.S. bonds. Overall, we still believe yields will have a tendency to rise by the end of the year as monetary policy becomes less accommodative, with more upside north of the border. Credit-wise, spreads should remain fairly stable and we recommend benefiting from the added returns that investment grade bonds provide, as they have a tendency to outperform treasuries when the economy is in expansion.

	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%	0.5%
		Canadian equities		7.5%	7.5%	0.0%
		U.S. equities	0% to 30%	7.5%	7.5%	0.0%
		Foreign equities		5.0%	5.0%	-0.5%
		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	Cash equivalents	0% to 20%	5.0%	9.5%	0.0%
		Fixed income (duration: 5.25 years) ¹	45% to 80%	55.0%	50.5%	0.5%
		Canadian equities		14.0%	14.0%	0.0%
	having a portfolio consisting mainly of fixed income investments for reasons of stability. Your tolerance	U.S. equities	20% to 45%	14.0%	14.0%	0.0%
	for risk is low.	Foreign equities		7.0%	7.0%	-0.5%
		Alternative investments ²	0% to 15%	5.0%	5.0%	0.0%
2	Balanced Portfolio					
	Investor Profile: You give equal importance	Cash equivalents	0% to 20%	5.0%	9.0%	0.0%
MODEL PORTFOLIOS	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.	Fixed income (duration: 5.25 years) ¹	30% to 65%	40.0%	35.5%	0.5%
		Canadian equities		17.5%	17.5%	0.0%
		U.S. equities	30% to 65%	17.5%	17.5%	0.0%
		Foreign equities		10.0%	10.5%	-0.5%
		Alternative investments ²	0% to 20%	10.0%	10.0%	0.0%
	Growth Portfolio					
	Investor Profile: Your main goal is capital growth.	Cash equivalents	0% to 25%	0.0%	4.5%	0.0%
	Although you can tolerate greater volatility in order	Fixed income (duration: 5.25 years) ¹	25% to 45%	35.0%	30.0%	0.5%
	to increase the value of your assets, you are not prepared to invest your entire portfolio in stocks. Your tolerance for risk is high.	Canadian equities		20.0%	20.0%	0.0%
		U.S. equities	40% to 75%	20.0%	20.0%	0.0%
		Foreign equities		15.0%	15.5%	-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%	0.0%	5.0%	0.0%
		Fixed income (duration: 5.25 years) ¹	0% to 30%	20.0%	14.0%	0.5%
		Canadian equities		22.5%	22.5%	0.0%
		U.S. equities	55% to 100%	22.5%	22.5%	0.0%
-		Foreign equities		20.0%	21.0%	-0.5%
		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		
		2015	2016	2017	2018	
	Gross Domestic Product %					
	Canada	0.9	1.5	3.0	2.5	
FORECAST	U.S.	2.9	1.5	2.2	2.4	
ORE	Inflation %					
ı.	Canada	1.1	1.4	1.6	1.8	
	U.S.	0.1	1.3	2.0	1.9	

	Augus	t 2017	December 2017		December 2018		
	Canada	U.S.	Canada	U.S.	Canada	U.S.	
Rate %							
Short-term rates (T-Bills, 91-Day)	0.75	1.00	1.21	1.36	1.96	1.83	
10-year bond yields	1.85	2.12	2.10	2.68	2.72	2.99	
30-year bond yields	2.26	2.75	2.48	3.20	3.02	3.39	
Canadian dollar	US\$	0.80	0 US\$0.82		US\$	S\$0.76	

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