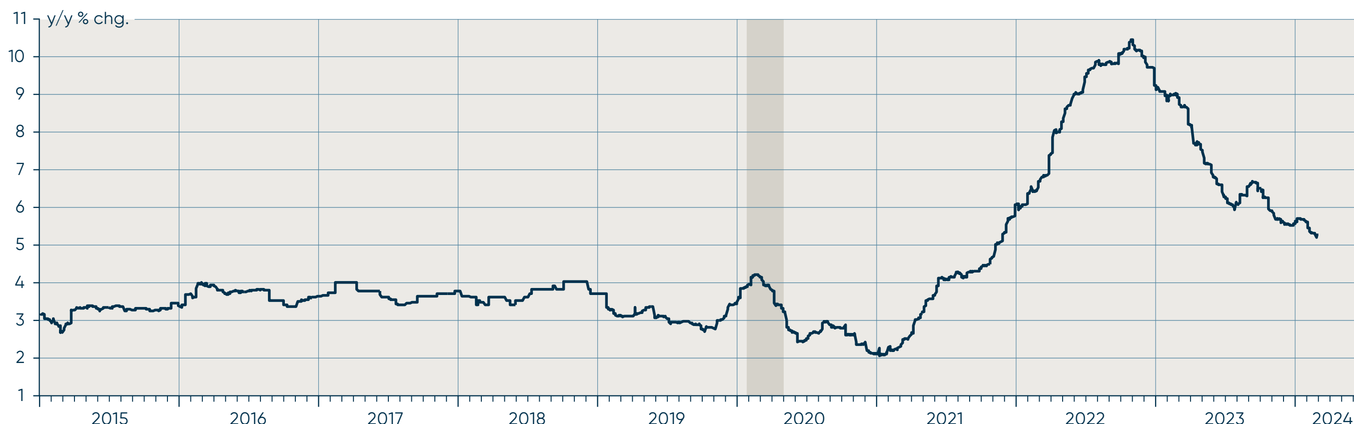
Spring 2024
Building your financial future

Investment Strategy

World

Although it's hard to tell by looking at the world's main stock market indices, the situation in the advanced economies has deteriorated of late. The second half of 2023 was generally difficult for the G7 countries, with no fewer than three countries posting a decline in activity (England, Germany, Japan) and two stagnating (France and Canada). China is also experiencing an economic slowdown, as the infrastructure boom is over and exports are being affected by protectionism and falling foreign demand. The world's second-largest economy is therefore seeking to stimulate consumption, which is easier said than done as social programs remain limited and household confidence remains shaken by a property crisis. Despite these difficulties, the resilience of the U.S. economy and the fall in global inflation are keeping investors optimistic that interest rates will fall soon.

In this respect, the European Central Bank followed the Fed's lead at its last meeting, confirming that the members of the Governing Council had discussed a gradual easing of monetary policy. All other things being equal, this would translate into a better economic outlook, but there are risks to this scenario. Recent disinflation in advanced economies has been heavily dependent on the goods sector, while price rises in services are proving more difficult to eradicate than in past disinflationary episodes. We believe that this will limit the rate cuts that central banks can announce, and that monetary policy could therefore remain restrictive for longer than expected. Growth is thus likely to remain below potential in several regions of the world for most of 2024 (we expect 2.7% growth in the year), before recovering slightly in 2025 (2.8%).



*Based on the most recent CPI YoY readings for countries accounting for 98% of the global economy and their corresponding weight in Global GDP on a PPP basis.
NBF Economics and Strategy (data via Bloomberg)

NATIONAL BANK FINANCIAL
WEALTH MANAGEMENT

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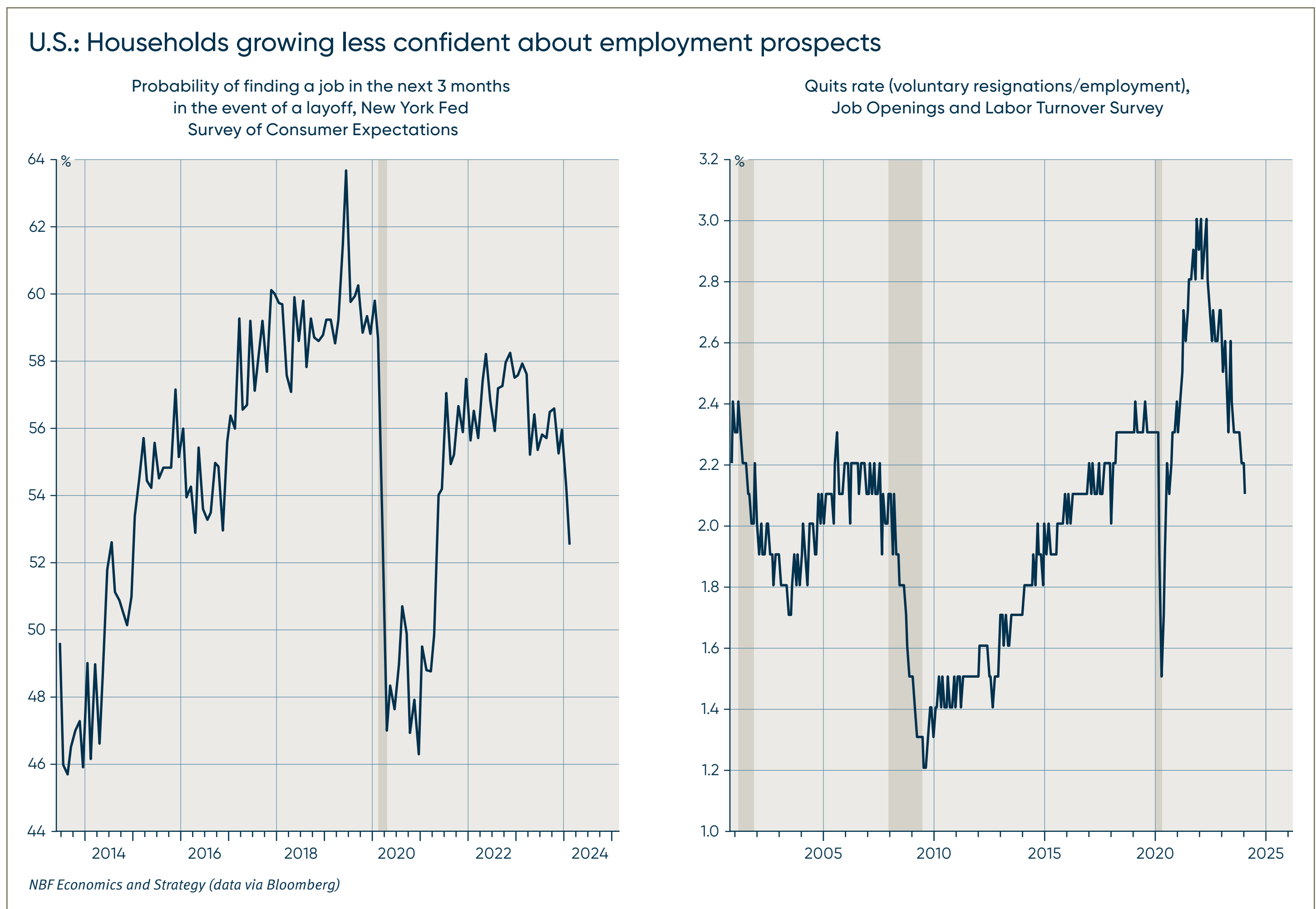
United States

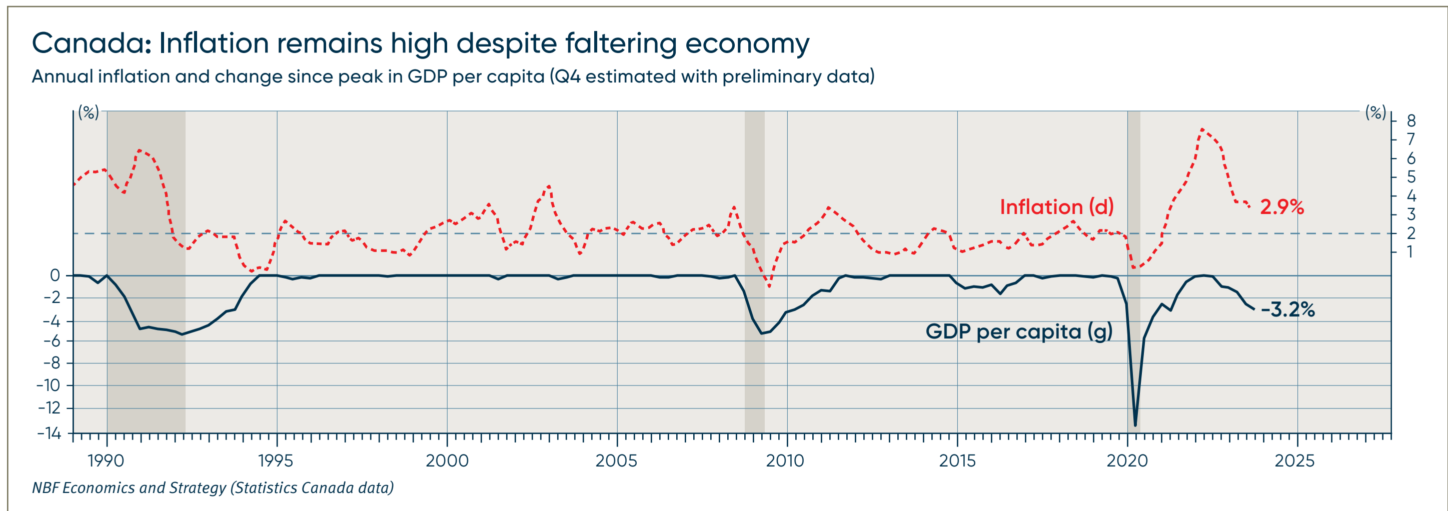
The year 2023 will undoubtedly go down as a good one for the U.S. economy, which managed to grow by 2.5% despite one of the most aggressive monetary tightenings in recent memory. In addition to the prodigal government, consumers have been a driving force of this growth, supported by a surprisingly resilient labour market. The dynamism of the economy continued at the start of 2024, but we still believe that a marked slowdown is to be expected in the coming quarters. On the one hand, the sharp rise in house prices since the pandemic and recent stock market trends are providing households with a wealth effect that could benefit consumption. On the other hand, some households are showing signs of fragility, as evidenced by the rise in delinquency rates for car loans and credit cards. In addition, the resilience of the labour market is uncertain, given that a majority of SMEs are reporting a contraction in sales. Already, workers are less and less confident of finding a job in the event of dismissal and are less inclined to leave their jobs voluntarily. Although the Federal Reserve has shown itself to be open to announcing rate cuts in the months ahead, we believe that the stalling of disinflationary progress means that a sustainable return to the inflation target cannot be achieved without economic moderation. So, while rate cuts are possible, the level of rates is likely to remain restrictive for some time, leading to a slowdown in U.S. economic growth towards the middle of the year. This forecast translates into growth of 2.1% in 2024 and 0.8% in 2025.



NBF Economics and Strategy (data via Bloomberg)

Canada

In Canada, it is becoming increasingly clear that the rate hikes announced since the start of the recent tightening cycle are taking their toll on the economy. GDP per capita has been falling for six quarters, and private domestic demand for two. The unemployment rate, for its part, is clearly on the rise, while job creation is not keeping pace with the dazzling growth in the active population. The economy's moderation is also reflected in survey data, notably the Central Bank's Business Outlook Survey, which shows a return to normal in the proportion of companies experiencing labour shortages and declaring that they would have difficulty meeting unexpected demand. Despite this, progress on inflation is stalling, mainly due to the housing component, which is stimulated by outsized population growth and the rise in interest rates. As the Bank of Canada's latest communications have focused on inflation resilience rather than signs of weak growth, there is a risk that it will inflict too much damage on the economy by maintaining an overly restrictive monetary policy. All in all, we anticipate a difficult 2024 for economic growth, which should be limited to an increase of 0.3%, while a slight acceleration of 1.2% is expected the following year.



Investment Strategy

The upbeat sentiment that marked the end of last year continued on the markets in the first quarter of 2024, with the S&P 500 surpassing its previous record set in January 2022, thanks in part to the persistent outperformance of tech giants at the forefront of advances in artificial intelligence. Meanwhile, bonds continued to lag, as investors no longer expect as many rate cuts as they did three months ago, whereas precious metal prices appreciated in the face of a still uncertain geopolitical context.

On the economic front, although there has been some good news since the start of the year, the real state of affairs remains difficult to assess as contradictory signals multiply. For example, while manufacturing activity appears to be picking up, consumers seem increasingly out of breath, as evidenced by slowing retail sales growth and rising credit card delinquency rates. Lastly, the fog is still thick on the inflation front, with various price indices surprising both on the upside and the downside in Canada and the U.S.

In short, beyond the occasional jolts in the macro environment, our base scenario still anticipates a gradual slowdown in inflation, accompanied by more turbulence for economic growth. In this respect, we will have to keep a close eye on consumer spending and, ultimately, the resilience of the labour market, which could be challenged later this year. Nevertheless, without promising anything, the latest communications from the Fed Chair open the door to rate cuts in early summer, provided recent trends continue. This therefore increases the chances that the U.S. central bank will start lowering its benchmark rate without there first being a more significant rise in the unemployment rate, which the markets could interpret as confirmation that a "soft landing" has indeed been achieved.

In the circumstances, we adjusted our equity allocation upwards in early February to reflect the increased probabilities associated with more favourable economic scenarios. At the same time, our asset allocation remains relatively conservative in the short term, with a slight underweight in equities against Canadian bonds and U.S. Treasuries. Geographically, within equities, we continue to overweight the United States and the EAFE region, both of which benefit from defensive properties, persistent momentum, and a more buoyant economic environment than Canada and emerging markets.

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%	5.0%	-1.5%
	Fixed income (duration: 7.25 years)[1]	60% to 100%	70.0%	73.0%	0.25%
	Canadian equities	0% to 30%	8.0%	6.5%	0.0%
	U.S. equities		8.0%	7.5%	0.75%
	Foreign equities		4.0%	3.0%	0.5%
	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%	5.0%	-1.5%
	Fixed income (duration: 7.25 years)[1]	45% to 80%	55.0%	60.5%	0.0%
	Canadian equities	20% to 45%	14.0%	11.5%	0.0%
	U.S. equities		14.0%	13.0%	1.0%
	Foreign equities		7.0%	5.0%	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%	5.0%	-1.5%
	Fixed income (duration: 7.25 years)[1]	30% to 65%	40.0%	46.0%	0.0%
	Canadian equities	30% to 65%	18.0%	15.5%	0.0%
	U.S. equities		18.0%	17.0%	1.0%
	Foreign equities		9.0%	6.5%	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%	5.0%	-1.5%
	Fixed income (duration: 7.25 years)[1]	20% to 45%	30.0%	36.0%	0.0%
	Canadian equities	40% to 75%	22.0%	19.5%	0.0%
	U.S. equities		22.0%	21.0%	1.0%
	Foreign equities		11.0%	8.5%	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%	5.0%	-1.5%
	Fixed income (duration: 7.25 years)[1]	0% to 30%	15.0%	21.75%	0.0%
	Canadian equities	55% to 100%	26.0%	23.0%	0.0%
	U.S. equities		26.0%	25.25%	1.0%
	Foreign equities		13.0%	10.0%	0.5%
	Alternative investments[2]	0% to 30%	15.0%	15.0%	0.0%

1 FTSE TMX Canada Universe Index
2 Includes hedge funds, global infrastructure and gold

FORECAST

			Forecast	
	2022	2023	2024	2025
Gross Domestic Product %				
Canada	3.8	1.1	0.3	1.2
U.S.	1.9	2.5	2.1	0.8
Inflation %				
Canada	6.8	3.9	2.4	2.3
U.S.	8.0	4.1	3.2	2.4

	June 2024		December 2024		December 2025	
	Canada	U.S.	Canada	U.S.	Canada	U.S.
Rate %						
Short-term rates (T-bills, 91-day)	4.80	5.20	3.95	4.40	2.70	3.30
10-year bond yields	3.45	4.25	3.15	3.95	3.00	3.75
30-year bond yields	3.35	4.35	3.15	4.15	3.10	4.00
Canadian Dollar	US $0.72		US $0.70		US $0.73	

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