Conservative income

January 2022 Edition

The Start of 2022! ~ Laurel Hickey & Garth Bluekens

Comments from the CIO's office

Martin Lefebvre is National Bank Investments Chief Investment Officer and Strategist. Please see below for key takeaways from his December Asset Allocation update.

At the end of last year, our Asset Allocation Strategy report entitled "Exit 2020, En Route to 2021" based its optimism for equity markets on an accelerating economic cycle, monetary conditions more accommodating than ever, and the onset of mass vaccination. Twelve months later, we see that the U.S. stock market ended up racing through 2021 at full throttle, exceeding the expectations of most investors, including us.

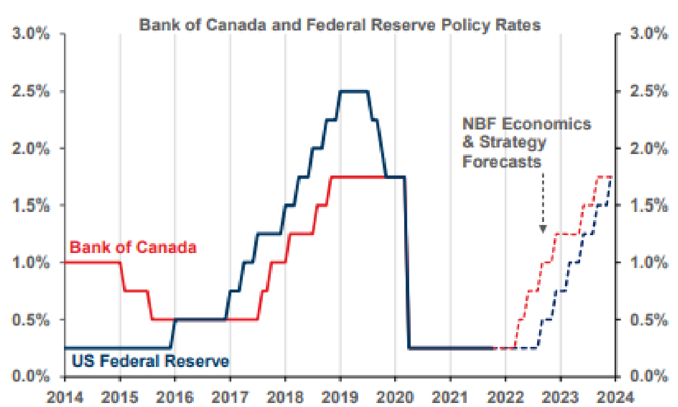
Though record high inflation created some volatility at times, equity markets did not appear overly worried. A fundamental reason was that by calling inflationary pressures transitory from the start, the Federal Reserve had virtually removed any speed limit on prices in 2021, thereby allowing markets to engage in the economic equivalent of an autobahn.

In 2022, we should see the economic cycle converge to a more sustainable pace as imbalances exacerbated by the pandemic begin to unwind, paving the way for the gradual normalization of ultra-accommodative monetary policies. This backdrop remains supportive for risk assets, although we should expect returns closer to historical averages and more volatility. The main risk factor will likely be the evolution of the major central banks' narratives toward inflationary pressures with dynamics complicated by a pandemic that still refuses to cooperate.

Under these circumstances, the path of least resistance should remain upward for 10-year yields. However, total upside appears relatively limited and will likely be mostly driven by real yields with a first Fed rate hike on the horizon. For equities, this argues for a balanced approach between sectors and styles, which is what the U.S. and Canadian markets offer.

Our colleagues at NBF Economics and Strategy project that this environment will lead to 2 rate hikes for the Federal Reserve in 2022, with the first in September. In Canada, where the job market has recovered more quickly and the Central Bank is less tolerant vis-à-vis inflation, a first hike should come as early as April, followed by 3 more over the course of the year (see chart below).

13 | Rate hikes are in store for 2022...



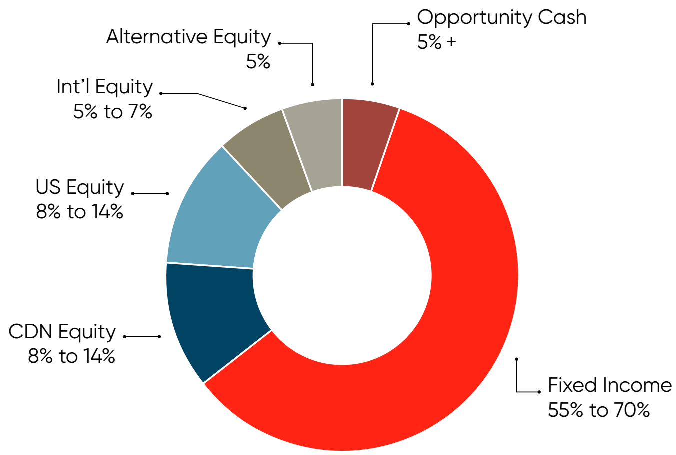
CIO Office (data via Refinitiv, NBF Economics and Strategy). Forecasts as of November 10, 2021.

What's Know Your Client Got To Do With It?

Know Your Client (KYC) is a concept that is not new when it comes to our relationship with you. As required by our governing body IIROC, we must take the necessary steps to ensure that we perform our due diligence in getting to know the financial situation and characteristics of our clients. This means gathering information on your net worth, your employment information, appetite for risk, knowledge of investing and so much more. The reason we are bringing this up now is because in January of 2022 the requirements are changing for the KYC rules. These new rules are part of an amendment to 31-103 and under them we are required to complete a KYC assessment once a year in order to update the financial information on your client file. This is something we have always done when we meet with you, but what is changing is the frequency that it must be completed, and the level of detail required for your net worth information. The 31-103 amendment also includes rules regarding designating a Trusted Contact for all clients, disclosing any leverage taken to invest and enhanced Know Your Product requirements for advisors. Rest assured, we will explain what all these concepts mean when we meet next year and answer any questions you may have.

Aside from the new regulations, getting more details on your financial situation will also help us in completing your retirement projection. Our firm recently rolled out Advice Suite- a financial projection tool and approach. This tool allows us to work with you to make confident decisions. The program looks at what's important to you by defining your needs, projects, and dreams through your Dream Board. It then verifies, specifies, and prioritizes your goals and looks at any trade offs before making recommendations. From there we can track your progress towards your goals through regular follow ups. We are looking forward to the new year and are excited to have more contact with you! We will be reaching out in the upcoming months to schedule a virtual or in person review.

Conservative Income Investment Goal Allocation



Your Investment Policy

CONSERVATIVE INCOME: On the whole, you want fixed income investments. You want to preserve your capital or create a source of periodic income to finance ongoing expenses. You are not against the idea of investing a small part of your portfolio in equities, mainly to counteract the effects of inflation. If you feel that your risk tolerance has shifted please let us know!

Source: This information is for illustration purposes and subject to change. Your portfolio may not hold all of these positions. We enhance the composition of your portfolio with additional equity solutions that are not illustrated. The weightings change with market fluctuations and model rebalancing.

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