December 2016
Building your financial future

Investment Strategy

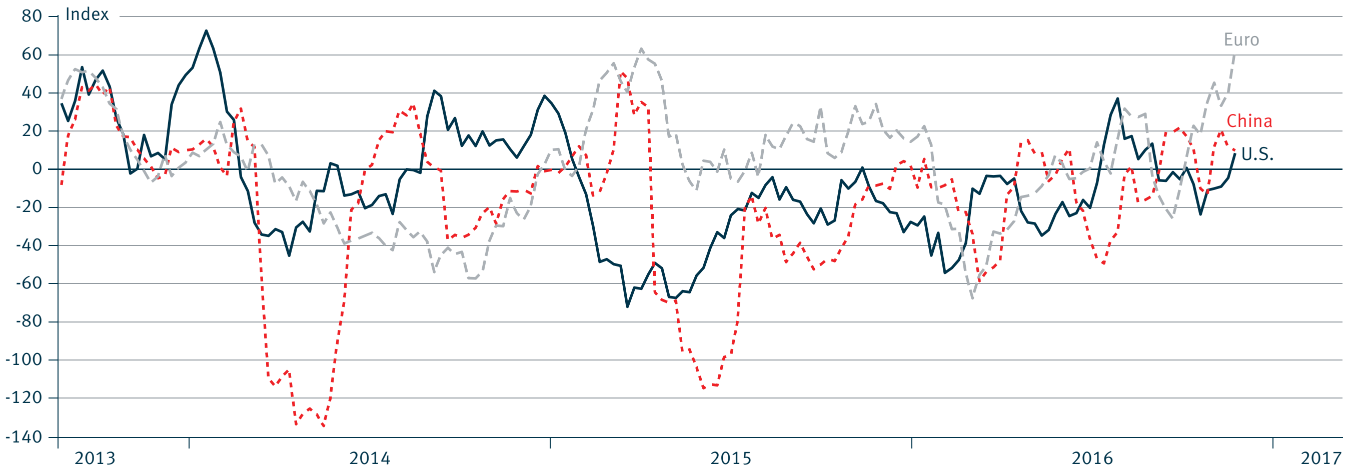
Global Economy

The global economy stabilized somewhat in the third quarter as advanced economies returned to growth, complementing continued expansion in emerging markets. Advanced economies were boosted by a resurgence in economic activity in the U.S., but also in Japan whose output grew at the fastest pace in a year and a half.

The Eurozone also continued to expand despite a moderation in Germany. In China, despite ongoing challenges brought by rebalancing and soft export demand, the pace of growth accelerated to more than 7% in Q2 thanks in part to government stimulus. Global GDP is expected to expand 3.3% in 2017, up from 3% in 2016.

World: Positive economic surprises in all regions

Citi's Economic Surprise Indexes



NBF Economics and Strategy (data via Bloomberg)

In this issue

NATIONAL BANK FINANCIAL
WEALTH MANAGEMENT

Canada

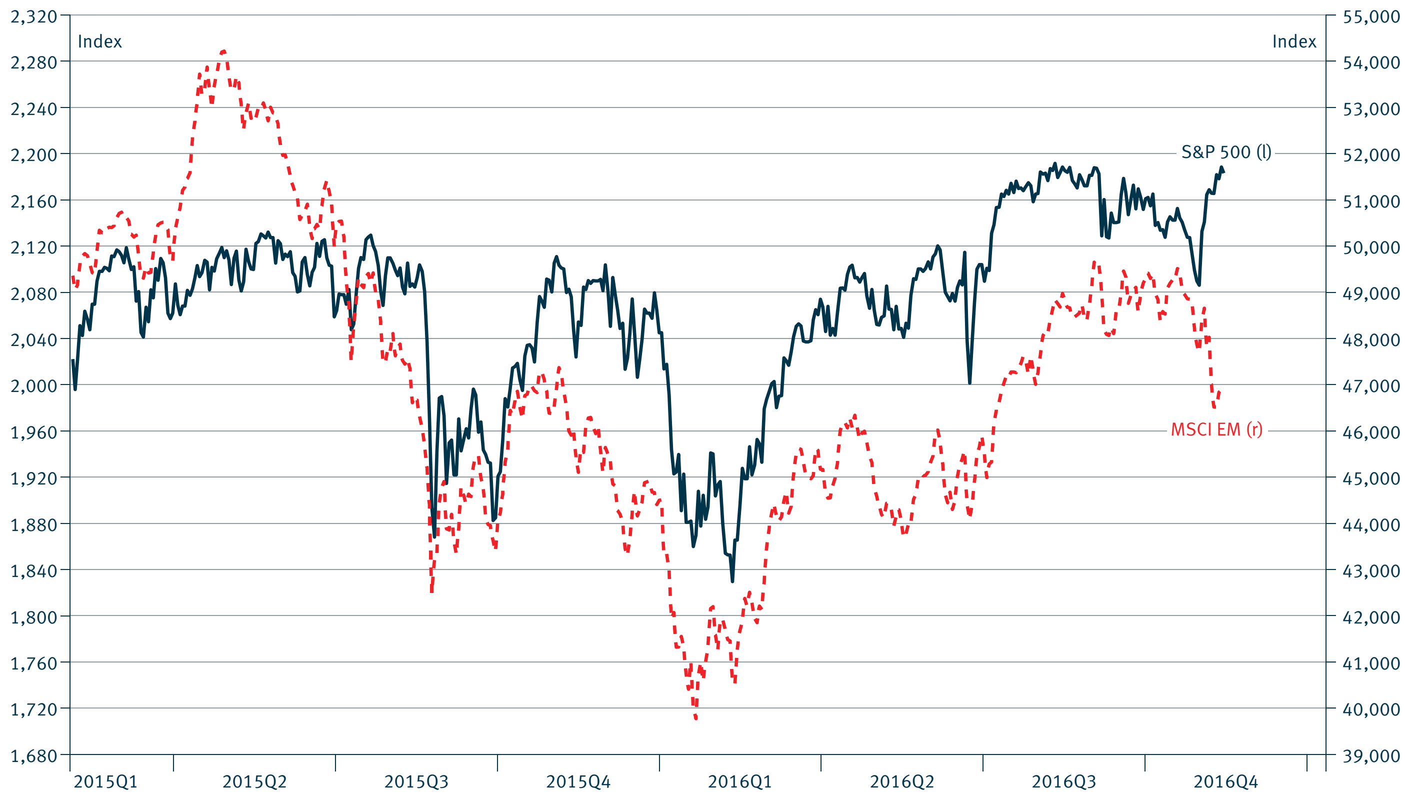
Canada's GDP expanded at an annualized pace of 3.5% in the third quarter of 2016 after a contraction of 1.2% in Q2. Importantly, the economy remains on track to expand just under 2% in Q4. This should continue to support job creation. In the four months through November, the Canadian labour market has generated 148 thousands jobs. On a regional basis, the three largest provinces have unemployment rates below the national average indicating that the weakness remains centered in fossil energy producing provinces. Interest rate cuts in Canada remains an unlikely scenario.

Financial Markets

On the surface, global equity markets seem to be reacting well to the U.S. election. The MSCI AC has regained most of the ground it lost immediately after November 8. But the rebound has been anything but broad- based. Outside the U.S., Canada and Japan (whose market is supported by the government), losses were the norm through the month of November. While the S&P 500 hovers near a record high, the MSCI EM is at a multi-month low. In Europe too, there is unease. The outlook for global growth and profits will depend in part on the extent to which the Trump administration will embrace protectionism. Further movement in that direction would heighten risks to the sustainability of global growth, considering how integrated the world economy has become through global supply chains and hence trade linkages. Export-oriented economies such as those of emerging countries are most at risk. Considering the likely fallout, it is unclear to what extent the new Trump administration will immediately follow through on his protectionist rhetoric given the relatively good state of U.S. labour markets (jobless rate only 4.6%).

Financial Markets: U.S. equities at a record, not so for emerging markets

S&P 500 vs. MSCI EM



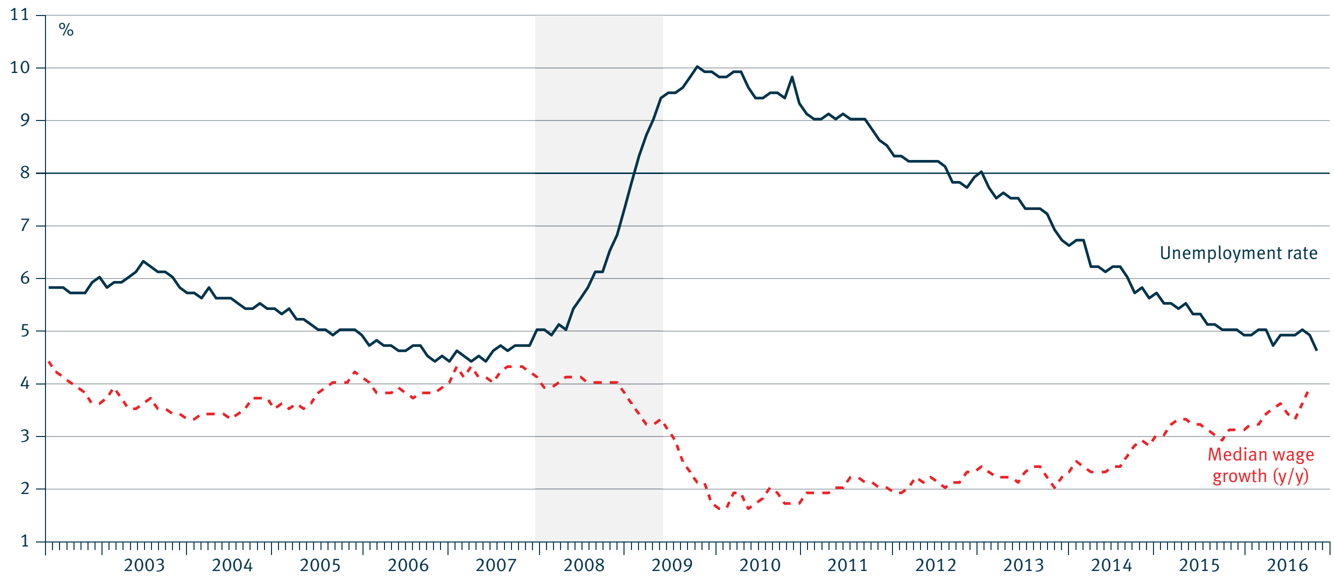
NBF Economics and Strategy (data via Datastream)

United States

Six years of obstructionism from the U.S. Congress seem to have come to an end with a surprising sweep of the November elections by the GOP. President-elect Trump is in a good position to advance his agenda, part of which is driven by fiscal stimulus. The combination of tax cuts and spending increases is likely to lift U.S. GDP growth above 2% in both 2017 and 2018. So expect the Federal Reserve to remain in tightening mode in 2017.

U.S.: Perspective on labour market

Unemployment rate and median wage growth (year-over-year)



NBF Economics and Strategy (data via Datastream and Federal Reserve of Atlanta)

Investment Strategy

Once again, polls were wrong and the anti-establishment votes ruled the day on November 8 as Donald Trump won the U.S. presidency. Not only that, but the GOP retained control of the House, giving the President-elect a very friendly environment to implement his agenda once he assumes power. While it is true some promises made during the campaign have the potential to influence markets in a material way, if implemented, the magnitude or timing of some policy decisions remains unclear. When taken as a whole, whether we look at fiscal, immigration or trade policies, inflation is expected to go up eventually and the importance of the rise will be a function of the magnitude of the plans put forth.

The election results brought a wave of optimism in U.S. equity markets, with investors hoping that tax breaks would help financial ratios and earnings for the S&P 500 while infrastructure projects would boost both economic growth and equity returns in its wake. However, we think the rebound is premature, as any projects will take a while to materialize, and we still have few details on how the plan will pan out. The bottom line for multinationals could also suffer from the U.S. dollar strengthening, which will act as a drag on foreign revenues, denominated in USD. As such, we suggest keeping a neutral position in equity markets. Its northern counterpart, the S&P/TSX benefitted from its two heavyweights, given increased optimism toward financial earnings and a U.S. administration that favours fossil fuels. However, in our view the valuation picture still justifies a neutral stance for the asset class. Indeed, market expectations of earnings growth currently priced-in seem high in light of the current economic environment, and the sentiment toward trade south of the border makes an export-led growth scenario unlikely or fragile for now.

In fixed income, the perspective for higher inflation was greatly detrimental for bond values, and we think yields have the potential to go even higher. As such, we recommend an underweight for the asset class as well as a defensive position duration-wise in favour of cash.

The greenback, should benefit from a U.S. economy that seems to be gaining traction with positive economic number surprises, which, combined with the Fed's policy divergence with other major central banks, should act as a support for the currency. For the loonie, this U.S. dollar strength should overshadow support coming from commodity price strength and it will likely remain under pressure. Consequently, we suggest gradually removing the currency hedge.

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%	8.5%	2.0%
	Fixed-income (duration: 5.25 years)[1]	60% to 100%	70.0%	65.0%	-1.0%
	Canadian equities	0% to 30%	7.5%	8.0%	-0.5%
	U.S. equities		7.5%	8.5%	-0.5%
	Foreign equities		5.0%	5.0%	0.0%
	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 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%	8.5%	2.5%
	Fixed-income (duration: 5.25 years)[1]	45% to 80%	55.0%	50.0%	-1.0%
	Canadian equities	20% to 45%	14.0%	14.5%	-0.5%
	U.S. equities		14.0%	15.0%	-0.5%
	Foreign equities		7.0%	7.0%	-0.5%
	Alternative investments[2]	0% to 15%	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%	8.5%	2.5%
	Fixed-income (duration: 5.25 years)[1]	30% to 65%	40.0%	35.0%	-1.0%
	Canadian equities	30% to 65%	17.5%	18.0%	-0.5%
	U.S. equities		17.5%	18.5%	-0.5%
	Foreign equities		10.0%	10.0%	-0.5%
	Alternative investments[2]	0% to 20%	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%	0.0%	4.0%	1.5%
	Fixed-income (duration: 5.25 years)[1]	25% to 45%	35.0%	29.5%	0.0%
	Canadian equities	40% to 75%	20.0%	20.5%	-0.5%
	U.S. equities		20.0%	21.0%	-0.5%
	Foreign equities		15.0%	15.0%	-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%	0.0%	5.0%	1.5%
	Fixed-income (duration: 5.25 years)[1]	0% to 30%	20.0%	13.5%	0.0%
	Canadian equities	55% to 100%	22.5%	23.0%	-0.5%
	U.S. equities		22.5%	23.5%	-0.5%
	Foreign equities		20.0%	20.0%	-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

	2014	2015	2016 (Forecast)	2017 (Forecast)
Gross Domestic Product %				
Canada	2.6	0.9	1.3	1.9
U.S.	2.4	2.6	1.6	2.2
Inflation %				
Canada	1.9	1.1	1.4	1.8
U.S.	1.6	0.1	1.2	2.1

	December 2016		June 2017		December 2017	
	Canada	U.S.	Canada	U.S.	Canada	U.S.
Rate %						
Short-term rates (T-Bills, 91-Day)	0.47	0.57	0.47	0.82	0.63	1.07
10-year bond yields	1.59	2.30	1.73	2.50	2.01	2.70
30-year bond yields	2.22	3.01	2.22	3.12	2.42	3.26
Canadian dollar	U.S. $0.74		U.S. $0.71		U.S. $0.73	