Winter 2025
Building your financial future

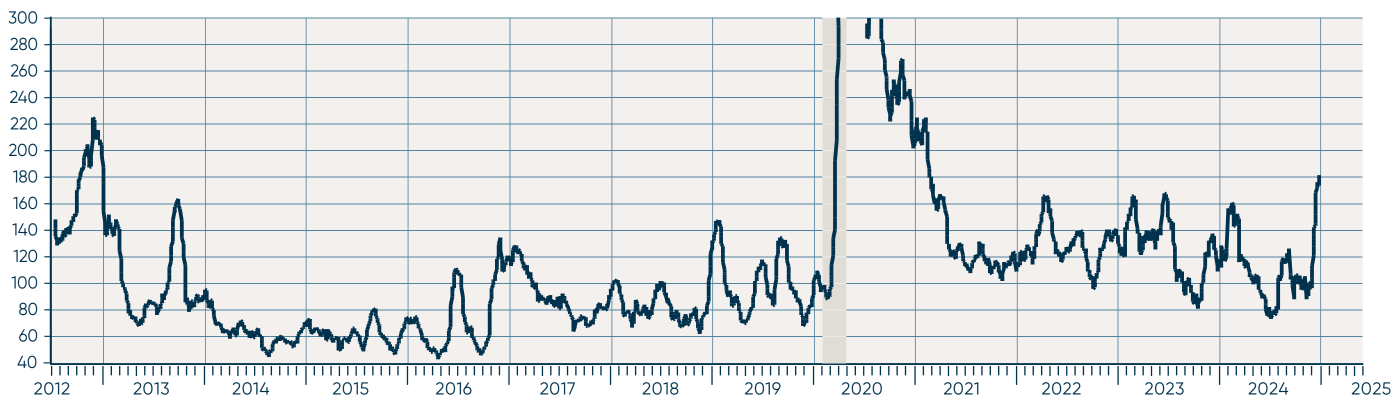
Investment Strategy

World

Of all the events of the last few weeks, the U.S. elections are undoubtedly the one likely to have the greatest impact on future global prospects. This is not only due to the protectionist policies advocated by the president-elect during his campaign, but also to the fact that the implementation of these policies has been made more likely by the Republican Party's takeover of both houses of Congress. We say "more likely" because, to a large extent, the program that will be put forward on Day 1 of the new administration remains a mystery. At this stage, our baseline scenario incorporates only a modest intensification of protectionist measures. We expect China and Mexico to be the main targets of new tariffs, with Mexico bearing the brunt of collateral economic damage due to its exposure to U.S. demand. Canada, Vietnam, Germany and Japan could also be affected, but to a lesser extent. However limited, the imposition of tariffs should still result in weaker growth in the targeted countries, mainly through reduced exports and business investment. However, this decline should be partly offset internationally by a more robust expansion in the United States. The shock of new tariffs should therefore be manageable, but this does not mean that global growth will be solid in 2025. This is because the escalation of trade tensions will unfortunately occur at a time when many parts of the world are already slowing down. China continues to suffer from a painful deleveraging process in the housing sector, while the Eurozone economy is struggling to find its feet. The rapid strengthening of the U.S. dollar is also causing concern in emerging economies, as it risks making debt servicing more difficult and forcing some central banks to give priority to defending their currencies to the detriment of growth. After expanding by 3.2% in 2024, we expect global GDP to rise by just 2.9% in 2025 and 3.1% in 2026.

U.S.: Republican sweep casts doubt about Washington's future policies

Economic policy uncertainty index for the U.S.



NBC Economics and Strategy (data via Refinitiv)

NATIONAL BANK FINANCIAL WEALTH MANAGEMENT

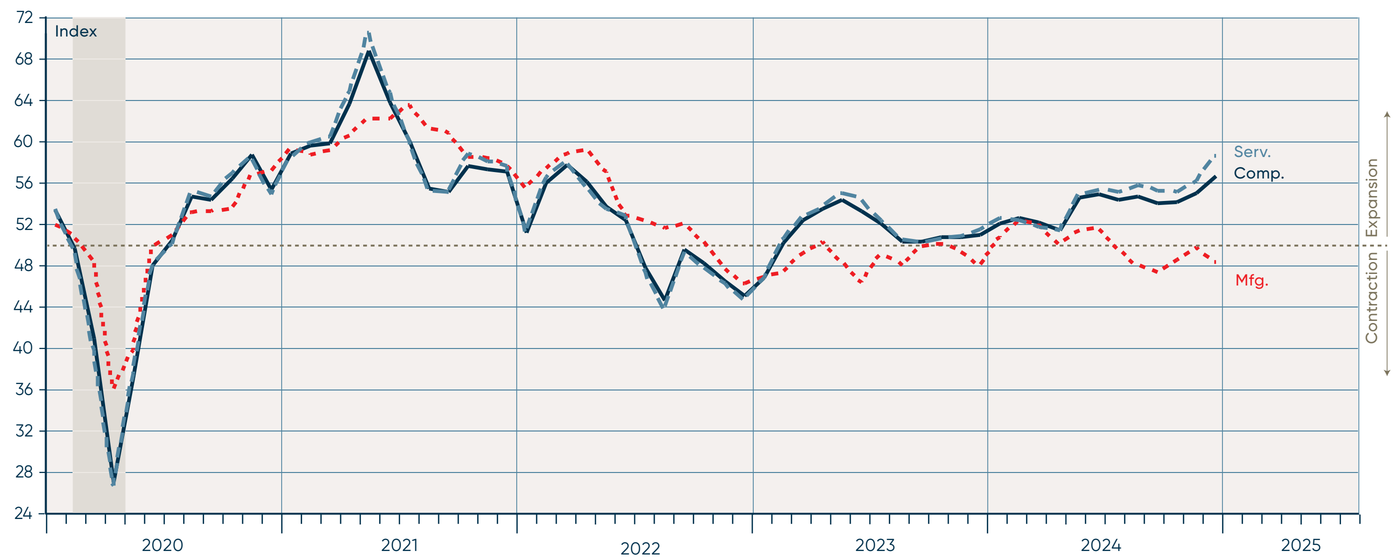
In this issue

United States

The latest U.S. data suggest that the economy will end the year on a high note. While the manufacturing sector continues to struggle, this is largely offset by very high levels of activity in the services sector. As has been the case for some time, the current strength reflects solid growth in consumer spending, due not only to the resilience of the labour market, but also to the steady increase in household net worth. As the drivers of recent performance are likely to remain the same in 2025, the U.S. economy should continue to outperform those of other wealthy countries, provided the new Trump administration sticks to the most pro-growth part of its agenda and keeps its protectionist instincts to a minimum. If this scenario comes to pass, the end result should be more growth—but also more inflation. This is because standard economic theory suggests that fiscal stimulus measures are more likely to generate inflation when implemented at a time when the economy is already operating above its potential. And at present, demand is far outstripping supply in the world's biggest economy. The bond market has not remained impassive in the face of the growing risks of inflation remaining above the Fed's target, with forward market expectations of key rates at the end of 2025 being revised sharply upwards in recent weeks. Such a recasting of expectations seems appropriate to us in a context where Fed Chairman Jerome Powell himself has repeatedly mentioned that failure to return inflation to target quickly could have serious consequences in the longer term, with a delayed return to target likely to entail greater economic costs. But while we agree that keeping inflation under control must remain the central bank's main objective for the time being, we remain concerned about the delayed effect that a tight monetary policy could have on a labour market that is showing some signs of weakness. Indeed, it is these risk factors that prompt us to maintain a relatively cautious growth outlook for the second half of 2025. However, as the below-potential growth at the end of the year is largely offset in our projections by a much stronger-than-expected expansion in Q4 2024 and Q1 2025, our growth forecast for 2025 as a whole has nonetheless been revised sharply upwards, to 2.1%. GDP is then expected to grow by 1.7% in 2026.

U.S.: Services sector expanding at a solid rate

S&P Global Flash PMI. Last observation: December 2024

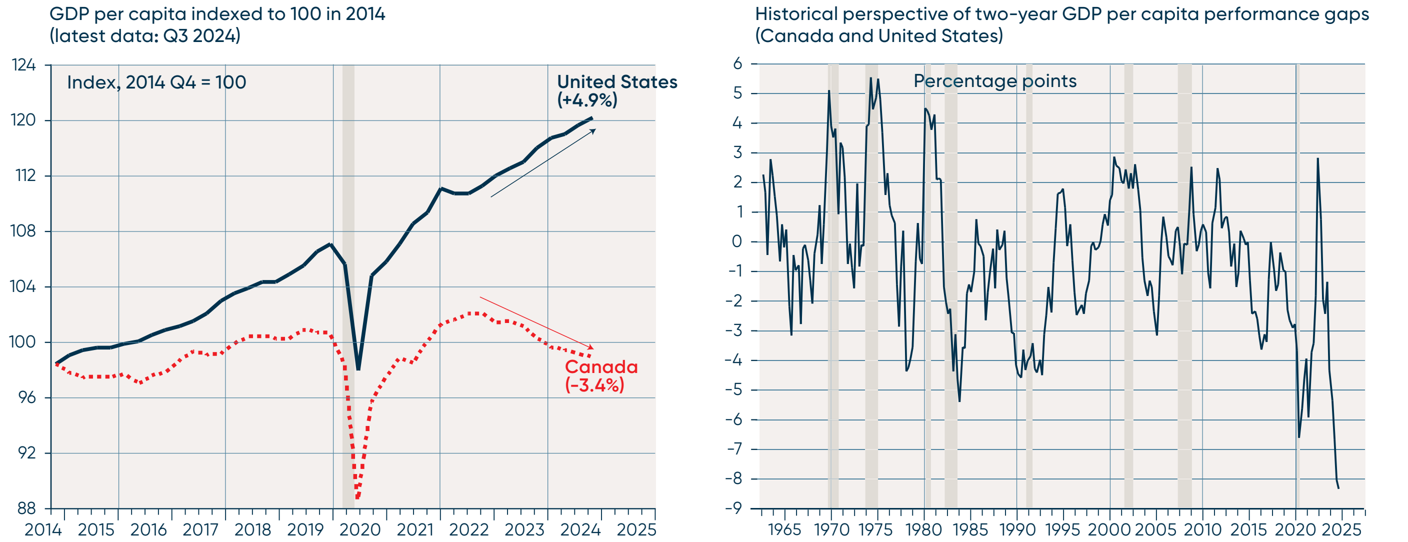


NBC Economics and Strategy (data via Refinitiv)

Canada

Throughout the autumn, the Bank of Canada felt that it was best to move the policy rate as quickly as possible closer to the range it considers neutral (2.25% to 3.25%). Indeed, after lowering it by 50 basis points in October, it repeated this action in December. The BoC's haste contrasts with the attitude of the other major central banks and is entirely justified given that inflation is under control in Canada and the economy has continued to weaken recently. Growth of just 1.0% in Q3 2024 was insufficient to stabilize GDP per capita, which fell for the sixth consecutive quarter in the context of restrictive monetary policy. The cumulative fall in GDP since the start of interest rate hikes now stands at 3.4%, an unprecedented level outside of the recession. Over the same period, GDP per capita in the United States has risen by 4.9%, against the backdrop of an economy stimulated by public deficits four times higher than in Canada as a percentage of GDP. A performance gap of this magnitude has not been seen for more than seven decades and explains the divergences between central bankers. Weakness in Canada could persist for some time in a context where inventory levels are high and the deterioration in the labour market is probably not over, if the further fall in profits in the last quarter is anything to go by. In November, the unemployment rate reached 6.8%, its highest level for 38 months, and since January 2017 excluding the pandemic. But it's not all doom and gloom: the residential property market has come back to life—and that's good news, especially as this sector of activity often has a major indirect impact on spending on renovation and retail trade. Thanks to the interest rate cuts that have been made, the conditions now look set for GDP per capita to stabilize and the unemployment rate to stop rising in the first half of 2025. We anticipate GDP growth of 1.4% in 2025 and 1.5% in 2026, slightly higher than the 1.2% we estimate for potential economic growth, held back by a weak demographic outlook due to the cut in immigration announced by Ottawa. Obviously, these forecasts could be disrupted by an escalation in trade tensions with the United States. We remain hopeful that, in the months ahead, Canada will be able to demonstrate that it can be a key ally in the implementation of the US economic security agenda, which includes, in addition to domestic re-industrialisation, tighter border controls and the promotion of energy security.

Canada: GDP per capita continues its downward trend



NBC Economics and Strategy (Data via Statistics Canada)

Investment Strategy

The final quarter of 2024 was marked by Donald Trump's victory in the U.S. presidential elections, resulting in an excellent performance for equities with strong market leadership for North America at the expense of the rest of the world. Government bonds, on the other hand, posted slight losses, as Treasury yields rose on the back of better-than-expected economic data and in anticipation of sustained budget deficits. Finally, this environment proved supportive for the U.S. dollar, which appreciated significantly against the Canadian dollar and the euro during the quarter.

On the economic front, the U.S. unemployment rate steadied in recent months, which was welcome news given that it had been a major source of concern when it rose rapidly in late summer. Moreover, inflation continued to evolve in line with expectations, allowing the Federal Reserve to continue its easing cycle despite stronger-than-expected economic activity.

Although the U.S. economy has largely evolved for the better, Donald Trump's return to the White House considerably muddies the waters for 2025. For the time being, the future administration's trade policies have been at the forefront, with the next American president threatening to impose tariffs on foreign imports in order to finance a more accommodating fiscal policy, including among other things a reduction in the corporate tax rate and an increase in oil production. At this stage, it remains hard to know what will ultimately be delivered. Nevertheless, it is clear that these proposals have been enthusiastically received south of the border, as evidenced by the considerable improvement in sentiment in a number of recent surveys of American consumers, investors and small businesses.

As a result, the balance of risks improved once again during the quarter, so that our baseline scenario now anticipates that a soft landing will be confirmed in the first half of 2025. While this should finally turn the page on four years of major economic disruption linked to the pandemic, investors are nonetheless faced with elevated stock market valuations and, more importantly, heightened political uncertainty with a fundamentally unpredictable U.S. president.

In this context, we continue to promote standard risk-taking with a balanced approach between equities and bonds. In addition, we have adjusted our geographic allocation in equities towards a significant overweight in North America, a positioning that is aligned with our quantitative model. While we continue to believe that the U.S. equity market should remain buoyant, high valuations and under-exposure to cyclical sectors are sources of vulnerability that Canadian equities help to offset. Within fixed income, we maintained our position in U.S. Treasuries, but marginally reduced its duration to reduce exposure to longer-term segments, as these are more volatile in a context of prevailing anxiety over U.S. fiscal deficits.

In any case, it will be important to maintain a flexible investment strategy in 2025, as the changing economic and political backdrop is likely to generate opportunities throughout what promises to be a year full of surprises.

MODEL PORTFOLIOS

Income Portfolio

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.

Asset Class	Minimum/ Maximum	Benchmark	Recommended Weighting	Change from Previous Quarter
Cash equivalents	0% to 20%	5.0%	3.0%	0.0%
Fixed income (duration: 7.25 years)[1]	60% to 100%	70.0%	71.50%	-1.50%
Canadian equities	0% to 30%	8.0%	8.0%	1.0%
U.S. equities		8.0%	9.0%	0.50%
Foreign equities		4.0%	3.50%	0.0%
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.

Asset Class	Minimum/ Maximum	Benchmark	Recommended Weighting	Change from Previous Quarter
Cash equivalents	0% to 20%	5.0%	3.0%	0.0%
Fixed income (duration: 7.25 years)[1]	45% to 80%	55.0%	57.0%	-1.5%
Canadian equities	20% to 45%	14.0%	14.0%	1.0%
U.S. equities		14.0%	15.0%	0.5%
Foreign equities		7.0%	6.0%	0.0%
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.

Asset Class	Minimum/ Maximum	Benchmark	Recommended Weighting	Change from Previous Quarter
Cash equivalents	0% to 20%	5.0%	3.0%	0.0%
Fixed income (duration: 7.25 years)[1]	30% to 65%	40.0%	42.0%	-2.0%
Canadian equities	30% to 65%	18.0%	18.0%	1.0%
U.S. equities		18.0%	19.5%	1.0%
Foreign equities		9.0%	7.5%	0.0%
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.

Asset Class	Minimum/ Maximum	Benchmark	Recommended Weighting	Change from Previous Quarter
Cash equivalents	0% to 25%	5.0%	3.0%	0.0%
Fixed income (duration: 7.25 years)[1]	20% to 45%	30.0%	32.0%	-2.0%
Canadian equities	40% to 75%	22.0%	22.0%	1.0%
U.S. equities		22.0%	23.5%	1.0%
Foreign equities		11.0%	9.5%	0.0%
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.

Asset Class	Minimum/ Maximum	Benchmark	Recommended Weighting	Change from Previous Quarter
Cash equivalents	0% to 30%	5.0%	3.0%	0.0%
Fixed income (duration: 7.25 years)[1]	0% to 30%	15.0%	17.0%	-2.50%
Canadian equities	55% to 100%	26.0%	26.0%	1.25%
U.S. equities		26.0%	28.0%	1.25%
Foreign equities		13.0%	11.0%	0.0%
Alternative investments[2]	0% to 30%	15.0%	15.0%	0.0%

1 FTSE TMX Canada Universe Index
2 Includes 3-month T-bills, global infrastructure and gold.

FORECAST

			Forecast	
	2022	2023	2024	2025
Gross Domestic Product %				
Canada	4.2	1.5	1.3	1.4
U.S.	2.5	2.9	2.8	2.1
Inflation %				
Canada	6.8	3.9	2.4	1.9
U.S.	8.0	4.1	2.9	2.3

	December 2024		June 2025		December 2025	
	Canada	U.S.	Canada	U.S.	Canada	U.S.
Rate %						
Short-term rates (T-bills, 91-day)	3.15	4.25	2.30	3.75	2.15	3.25
10-year bond yields	3.23	4.50	2.80	4.10	2.65	3.80
30-year bond yields	3.27	4.65	2.95	4.30	2.80	4.05
Canadian Dollar	US $0.69		US $0.70		US $0.72	