

Investment Strategy

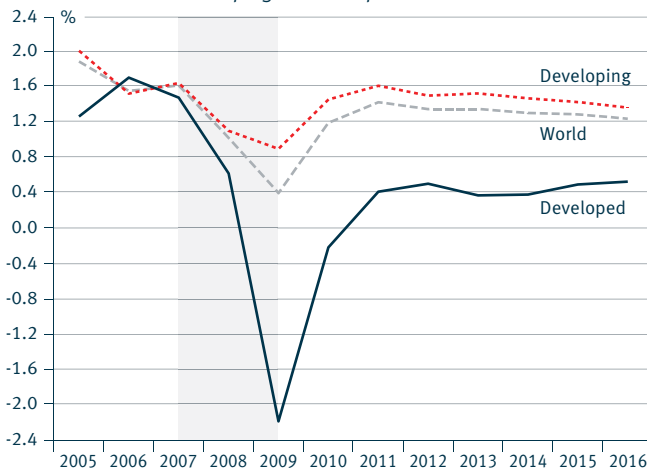
Global Economy

Despite a poor start to the year, the global economy remains on track to expand at a 3% clip in 2016. At this rate, we believe that the global workforce will reach a record 3.26 billion by the end of the year, helping consumer demand. In China, where the authorities have

recently pledged to provide more fiscal stimulus to boost domestic demand, volume imports of key commodities (copper, iron ore and oil) are at new highs. At this juncture, geopolitical uncertainty is the main headwind to growth.

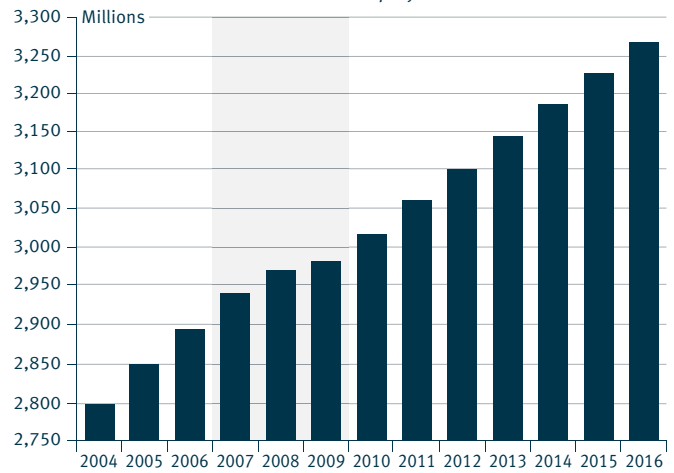
World: More than 3.2 billion workers in 2016

*Employment growth:
Developing vs. developed economies*



NBF Economics and Strategy

*World:
Total employment*



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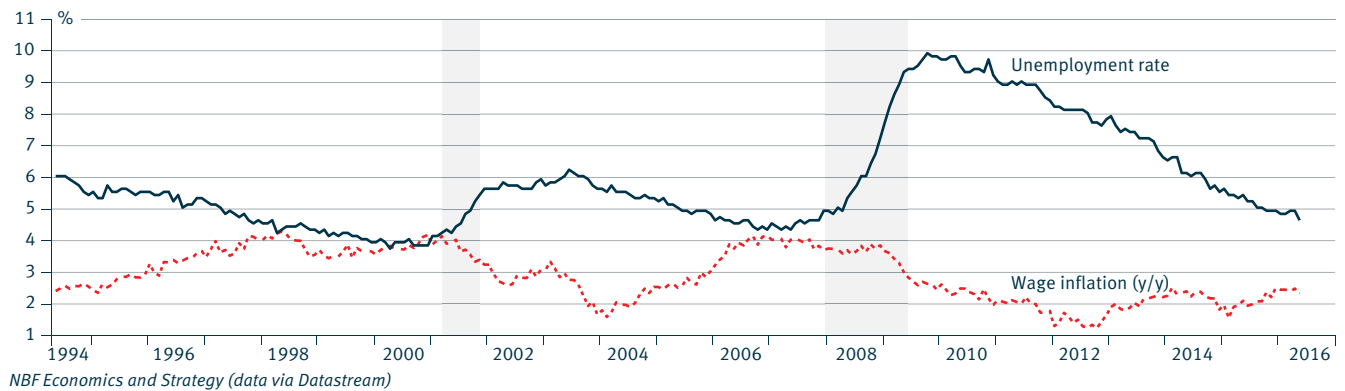
United States

The US economy seems to be picking up some speed in the current quarter after a disappointing start to 2016. But old problems remain, namely a trade sector saddled with earlier USD appreciation and weak business investment which is restricting the economy's potential for growth and jeopardizing employment creation. The latter is likely to pace down further over the coming months while inflation should remain low. So, while the Federal Reserve is trying to convince

markets that there will be two interest rate hikes this year starting with one this summer, economic realities may force it to adopt a slightly more patient stance. Even with an unemployment rate of less than 5%, wage inflation is likely to remain tame as more people opt to re-enter the labour force. We remain comfortable with our forecast of 1.9% growth for US GDP in 2016.

U.S.: Wage inflation remains tame

Unemployment rate vs. wage inflation



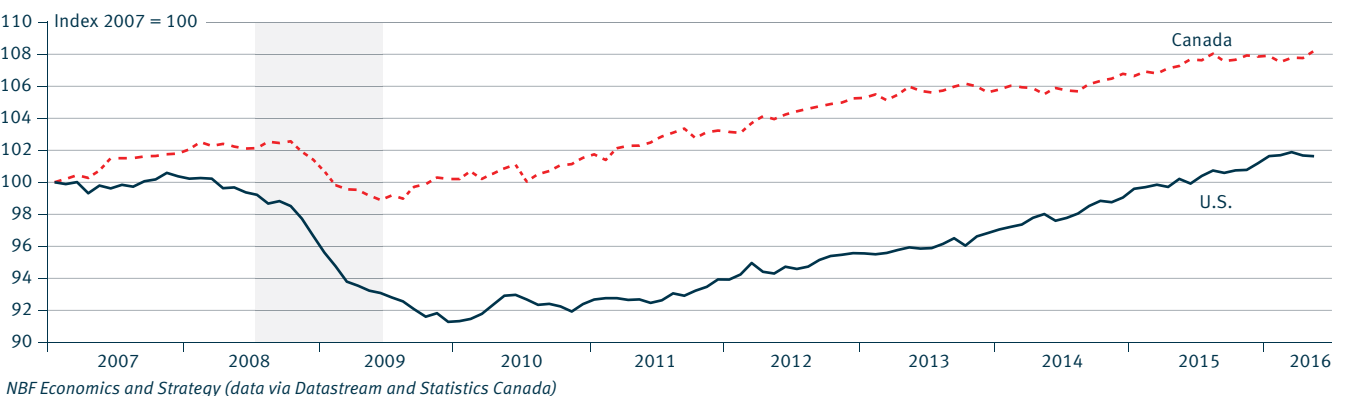
Canada

Canada's economy may have contracted in the second quarter. A giveback was always in the cards after unsustainably large gains earlier, but the Alberta wildfires have made things worse for Q2's prospects. Diminished oil production will hurt GDP in the second quarter, although economic growth should bounce back in the third in synch with clean-up and rebuilding efforts and as oil production recovers and labour markets continue to expand: full-time

employment surged to a record high in May at the national level. Overall, assuming curtailments to oil production do not last more than a month, the GDP hit to 2016 growth shouldn't be more than a tenth of a percentage point according to both our own and the Conference Board's estimates, i.e. a hit that is not significant enough to prompt a dovish turn by the central bank. We see the Canadian economy expanding 1.3% in 2016.

Canada: Full-time jobs at record high in May

Canada & U.S. Full-Time Employment



Financial Markets

At this writing, markets remain edgy about the June 23 Brexit vote. The U.S. dollar is strengthening, real interest rates are moving higher and equity markets are struggling. At this point, we would argue that the behaviour of the British currency and relatively tight credit derivative spreads (CDS) spreads for senior European financials

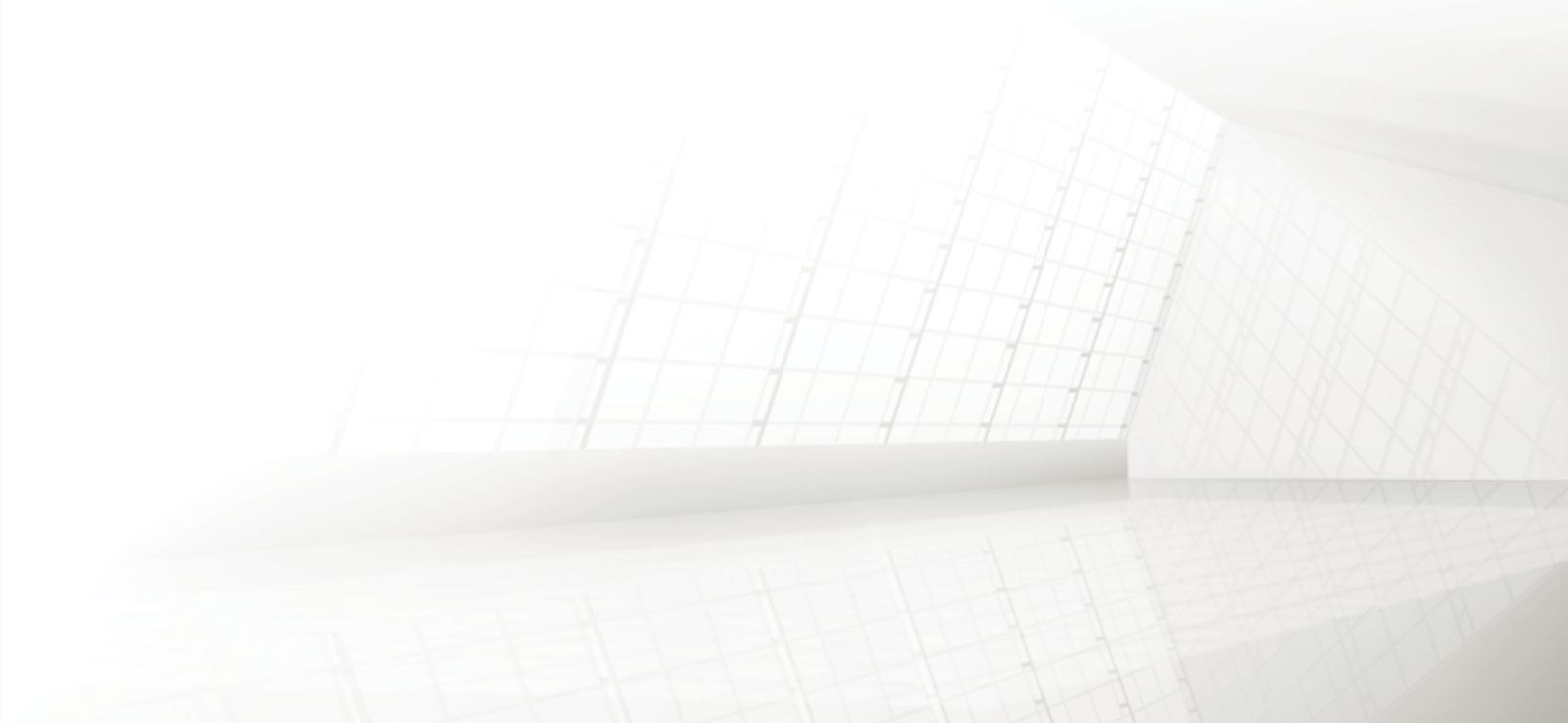
– spreads that a Brexit would be expected to widen significantly – suggest that the market is betting against a vote to leave the European Union (EU). The result of the vote will greatly influence the direction of financial markets in the weeks ahead.

Investment Strategy

Global financial risks continued to subside in the second quarter and markets rebounded accordingly. As expected, following the sharp slowdown in job creation in the US and in light of the uncertainty regarding the UK referendum, the timing of interest rate hikes by the Federal Reserve has been pushed further down the road. However, the Fed is still looking at ways to reduce its accommodative monetary policy as it is actively looking past the recent soft patch for a window of opportunity to raise its target interest rate.

One of the reasons leading to higher rates could come from the potential increase in inflation generated by the run-up in crude oil prices for the second quarter, which has been nothing short of spectacular. However, we think crude oil markets will face strong headwinds in the coming months owing to the prospect of U.S. dollar appreciation and selling pressure from producers, eager to lock-in some fairly attractive profit margins. That being said, although we see some downside risks on the short-term horizon, the medium/long-term picture remains fairly attractive, as the supply and demand picture will eventually rebalance and prices should witness a slow and deliberate appreciation. Consequently, even though we are past the recent highs, we think the Canadian dollar, which is closely tied to energy levels, has limited upside for now, and investors should wait before implementing or adding to their hedge positions.

Whether the Fed decides to act earlier than expected or further down the road, the yields will eventually follow suit. As such, we suggest investing in shorter duration bonds with higher yields. For equities, we think the sharp increase in Canadian stocks since January is at risk of running out of steam and a consolidation is likely as the heavy weight in the energy sector could affect potential returns. Moreover, the S&P 500 is hitting technical resistance levels while its financial ratios have now reverted to levels witnessed before the recent corrections. Before the next leg up, companies will have to show some form of earnings growth, and that has proven difficult to achieve in recent months. Therefore we suggest a prudent approach for the short term horizon. However, we do not predict a recession in the coming quarters and we expect the soft patch to subside. As a consequence, we still favour equities as they offer better return prospects in the medium to long term horizon compared to their fixed income counterparts.



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: 5 years) ¹	60% to 100%	70.0%	66.0%	0.0%
	Canadian equities	0% to 30%	7.5%	9.5%	-0.5%
	U.S. equities		7.5%	9.0%	-0.5%
	Foreign equities		5.0%	5.5%	-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 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%	4.5%	1.5%
	Fixed-income (duration: 5 years) ¹	45% to 80%	55.0%	51.0%	0.0%
	Canadian equities	20% to 45%	14.0%	16.5%	-0.5%
	U.S. equities		14.0%	15.5%	-0.5%
	Foreign equities		7.0%	7.5%	-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%	3.0%	1.5%
	Fixed-income (duration: 5 years) ¹	30% to 65%	40.0%	36.0%	0.0%
	Canadian equities	30% to 65%	17.5%	20.5%	-0.5%
	U.S. equities		17.5%	19.5%	-0.5%
	Foreign equities		10.0%	11.0%	-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%	1.5%	1.5%
	Fixed-income (duration: 5 years) ¹	25% to 45%	35.0%	28.0%	0.0%
	Canadian equities	40% to 75%	20.0%	23.0%	-0.5%
	U.S. equities		20.0%	21.5%	-0.5%
	Foreign equities		15.0%	16.0%	-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%	2.0%	2.0%
	Fixed-income (duration: 5 years) ¹	0% to 30%	20.0%	11.5%	0.0%
	Canadian equities	55% to 100%	22.5%	26.0%	-1.0%
	U.S. equities		22.5%	24.5%	-0.5%
	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	Forecast				June 2016		December 2016		December 2017			
	2014	2015	2016	2017	Canada	U.S.	Canada	U.S.	Canada	U.S.		
	Gross Domestic Product %					Rate %						
Canada	2.5	1.1	1.3	1.9	Short-term rates (T-Bills, 91-Day)							
U.S.	2.4	2.4	1.9	2.0	0.52	0.27	0.46	0.59	0.74	1.10		
Inflation %					10-year bond yields							
Canada	1.9	1.1	1.7	2.1	1.27	1.75	1.63	2.02	1.99	2.21		
U.S.	1.6	0.1	1.4	2.3	30-year bond yields							
					1.92	2.57	2.24	2.75	2.49	2.87		
					Canadian dollar		U.S. \$0.79		U.S. \$0.78		U.S. \$0.79	

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