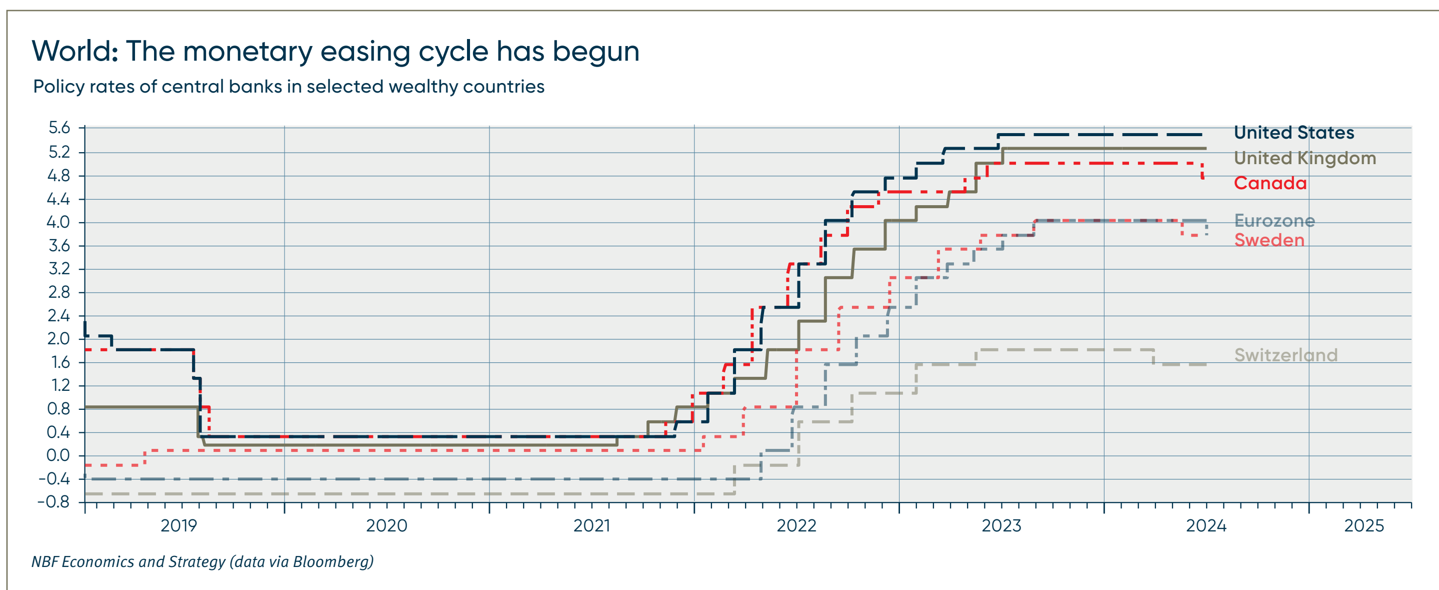
Summer 2024
Building your financial future

Investment Strategy

World

Price pressures continue to ease around the world. For 14 months now, global inflation indicators have been below economists' consensus. Recognizing the rapid improvement in price conditions, the Swiss National Bank cut interest rates in March, followed shortly by Sweden's Riksbank. In the first week of June, the Bank of Canada and the European Central Bank also decided to follow suit. Since this round of easing is taking place without the global economy having suffered pronounced pain from highly restrictive policy rates, many might be tempted to believe that the soft-landing scenario for the economy is well on its way to becoming a reality; however, risks to this forecast remain. While the major central banks are beginning to pivot, they have warned that they will continue to do so cautiously out of concern of seeing inflationary pressures rise again. The Bank of Canada insisted that its future rate cuts would be "gradual," while the ECB maintained that it would follow a "data-dependent" approach. This indicates that the global economy will continue to operate within a restrictive monetary policy framework for the foreseeable future, and so the risks of a monetary policy mishap remain. This is all the more true given that the recent strength of the global economy has been partly attributable to deteriorating fiscal deficits in many countries. In Europe, in particular, this has masked the weak financial health of households and businesses. Meanwhile, in the United States, the easing cycle has yet to begin, which could mean an economic slowdown in the second half of the year. Finally, China is unlikely to be able to save the day, as money supply growth remains anemic and the real estate sector continues to post setbacks. As a result, the global economy could slow considerably in the months ahead. We forecast growth of 3.0% in 2024 and 2.8% in 2025.



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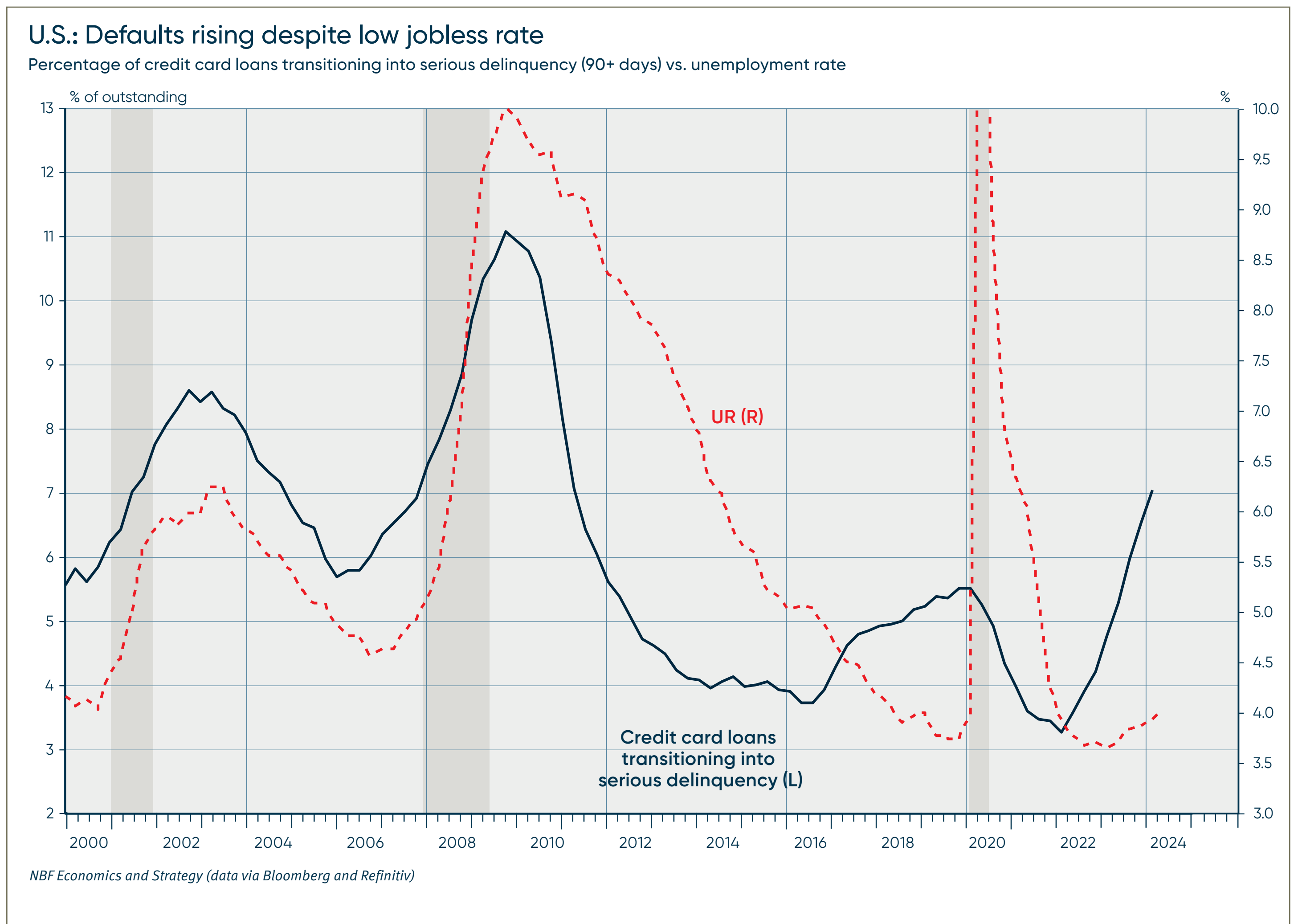
NATIONAL BANK FINANCIAL
WEALTH MANAGEMENT

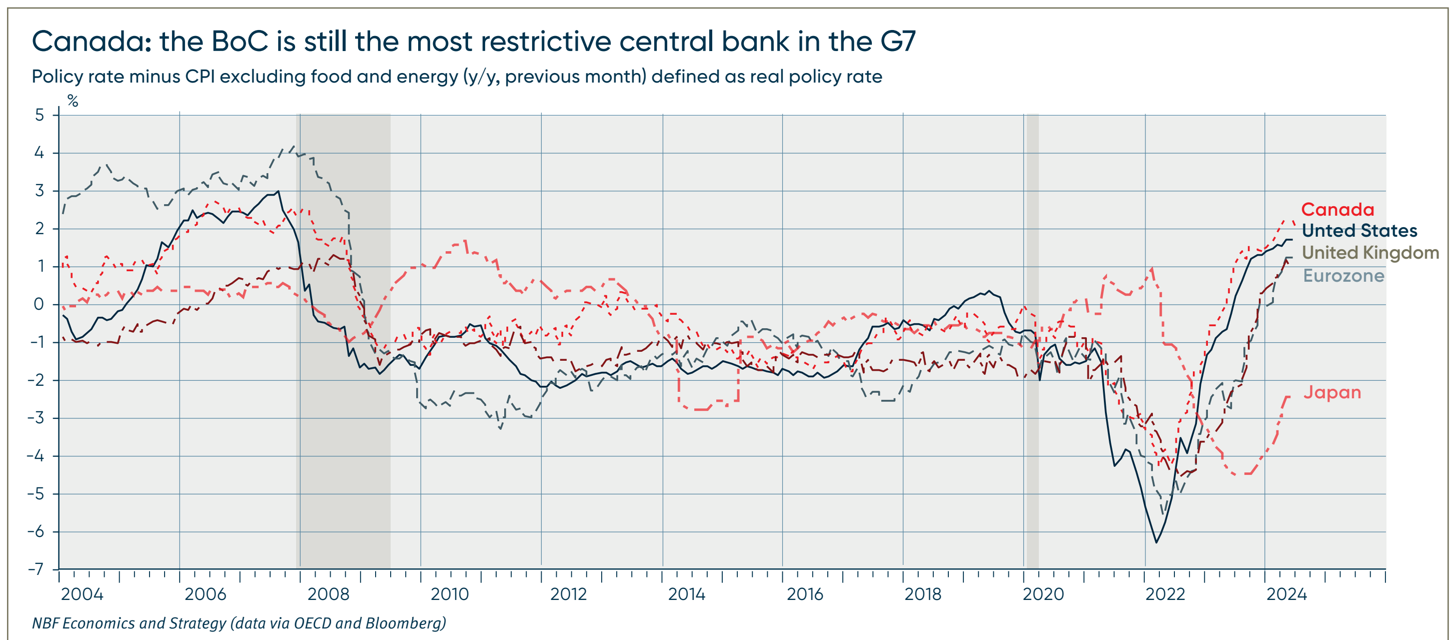
United States

After a long string of good data, the U.S. economy began to disappoint at the start of the second quarter of 2024. Consumers are showing signs of weakness, as evidenced by the increase in the percentage of credit card loans transitioning into serious delinquency, a phenomenon that is particularly worrying for smaller banks, where defaults have soared to record levels. This deterioration in household financial health is particularly worrying in a context where, despite a slight rise in the unemployment rate, the U.S. job market remains relatively tight. There is also reason to believe that households are now disarmed, having probably used up all the surplus savings accumulated at the start of the pandemic. A slowdown in consumption is all the more likely as financing conditions could remain difficult in the months ahead, as the Federal Reserve has not yet seen enough progress towards the inflation target to initiate its easing cycle. In its June dot plot, it indicated that its members are considering just one policy rate cut in 2024, two fewer than telegraphed at the March meeting. So, while rate cuts are possible, rate levels are likely to remain restrictive until the end of the year. In light of the most recent events, it is becoming increasingly clear that a sustainable return to the inflation target is unlikely without greater economic moderation in the U.S. We therefore continue to believe that the U.S. economy will slow in the second half of the year, translating into growth of 2.3% in 2024 and of 1.0% in 2025.



Canada

Progress on inflation has prompted the Bank of Canada to cut its policy rate by 25 basis points in June 2024, the first easing in four years. This rate cut is very welcome given that the Canadian economy is showing clear signs of weakness. For one, GDP per capita has declined by 3.5% since its peak, an unprecedented decline outside recessionary periods. In addition, the unemployment rate has risen by 1.4 percentage points since its trough, corroborating business surveys in which respondents report a return to normal labour shortages. Given that corporate profits fell by 29% annualized in the first quarter of this year, it is unlikely that this trend will be reversed in the short term, especially as there is reason to believe that companies have an oversupply of workers in many sectors. So, while the Bank of Canada's decision is viewed positively by many, it does not mean that it will significantly reinvigorate households and businesses. Despite the June cut, Canada's real policy rate remains the most restrictive of the G7 economies, despite the fact that it is the only country in this group whose unemployment rate has risen to its equilibrium level. Under these conditions, it remains unlikely that the start of the easing cycle in Canada will enable the economy to rebound quickly. All in all, we forecast a difficult 2024 for economic growth, which should be limited to an increase of 0.7%. Growth should pick up slightly in 2025 (+1.2%).



Canada: the BoC is still the most restrictive central bank in the G7

Policy rate minus CPI excluding food and energy (y/y, previous month) defined as real policy rate

NBF Economics and Strategy (data via OECD and Bloomberg)

Investment Strategy

The second quarter of 2024 was a positive one for the markets as a whole, with bonds joining stocks in their uptrend after a more difficult start to the year; however, gains remained rather uneven across equity markets, with the few technology giants accentuating their gains, while the more cyclical energy, financial and industrial sectors ended the period with losses. Naturally, this environment proved more buoyant for the U.S. stock market, while Canadian equities underperformed significantly.

On the economic front, the gradual slowdown in inflation that we had been anticipating has indeed materialized, allaying bond market fears of a further overheating of the economy. As a result, several central banks have formally initiated a long-awaited new cycle of monetary easing, with the Bank of Canada and the European Central Bank, among others, cutting rates for the first time in early June. For their part, Federal Reserve officials have opened the door to a first rate cut later this year, preferring to err on the side of caution given the strength of the U.S. economy.

Looking ahead, the start of rate cuts is likely to continue to be celebrated by the markets, as central banks have so far succeeded in taming inflation without causing a significant rise in the unemployment rate, a task that was far from easy. Nonetheless, we'll have to keep a close eye on the labour market and the state of consumers, as these two parts of the economy have begun to show signs of exhaustion, whether via the decline in small businesses' hiring intentions or the depletion of excess savings; further deterioration over the next few months could catch equities off guard.

Against this backdrop, we have maintained a neutral positioning within our tactical asset allocation, with the potential for gains appearing relatively balanced between stocks and bonds given the optimism generated by the start of rate cuts. Geographically, within equities, we have moved Emerging Markets back to neutral by reducing the EAFE region in order to be more in line with the trend reversal signalled by our quantitative model. As a result, our geographic allocation is now overweight U.S. stocks against Canada and the EAFE region, as the S&P 500's sector allocation is better aligned to perform in the current market environment.

MODEL PORTFOLIOS	Asset Class	Minimum/ Maximum	Benchmark	Recommended Weighting	Change from Previous Quarter
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.	Cash equivalents	0% to 20%	5.0%	3.5%	-1.5%
	Fixed income (duration: 7.25 years)[1]	60% to 100%	70.0%	73.0%	0.0%
	Canadian equities	0% to 30%	8.0%	6.5%	0.0%
	U.S. equities		8.0%	8.5%	1.00%
	Foreign equities		4.0%	3.5%	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%	3.0%	-2.0%
	Fixed income (duration: 7.25 years)[1]	45% to 80%	55.0%	59.5%	-1.0%
	Canadian equities	20% to 45%	14.0%	11.5%	0.0%
	U.S. equities		14.0%	14.5%	1.5%
	Foreign equities		7.0%	6.5%	1.5%
	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%	3.0%	-2.0%
	Fixed income (duration: 7.25 years)[1]	30% to 65%	40.0%	45.0%	-1.0%
	Canadian equities	30% to 65%	18.0%	15.5%	0.0%
	U.S. equities		18.0%	18.5%	1.5%
	Foreign equities		9.0%	8.0%	1.5%
	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%	3.0%	-2.0%
	Fixed income (duration: 7.25 years)[1]	20% to 45%	30.0%	35.0%	-1.0%
	Canadian equities	40% to 75%	22.0%	19.5%	0.0%
	U.S. equities		22.0%	22.5%	1.5%
	Foreign equities		11.0%	10.0%	1.5%
	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%	3.0%	-2.0%
	Fixed income (duration: 7.25 years)[1]	0% to 30%	15.0%	21.0%	-0.75%
	Canadian equities	55% to 100%	26.0%	23.0%	0.0%
	U.S. equities		26.0%	26.5%	1.25%
	Foreign equities		13.0%	11.5%	1.5%
	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	2022	2023	2024 (Forecast)	2025 (Forecast)
Gross Domestic Product %				
Canada	3.8	1.2	0.7	1.2
U.S.	1.9	2.5	2.3	1.0
Inflation %				
Canada	6.8	3.9	2.3	2.1
U.S.	8.0	4.1	3.0	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)	4.60	5.40	3.75	4.75	2.95	3.35
10-year bond yields	3.30	4.25	3.15	4.10	3.05	3.80
30-year bond yields	3.25	4.40	3.15	425	3.15	4.05
Canadian Dollar	US $0.72		US $0.70		US $0.74	

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