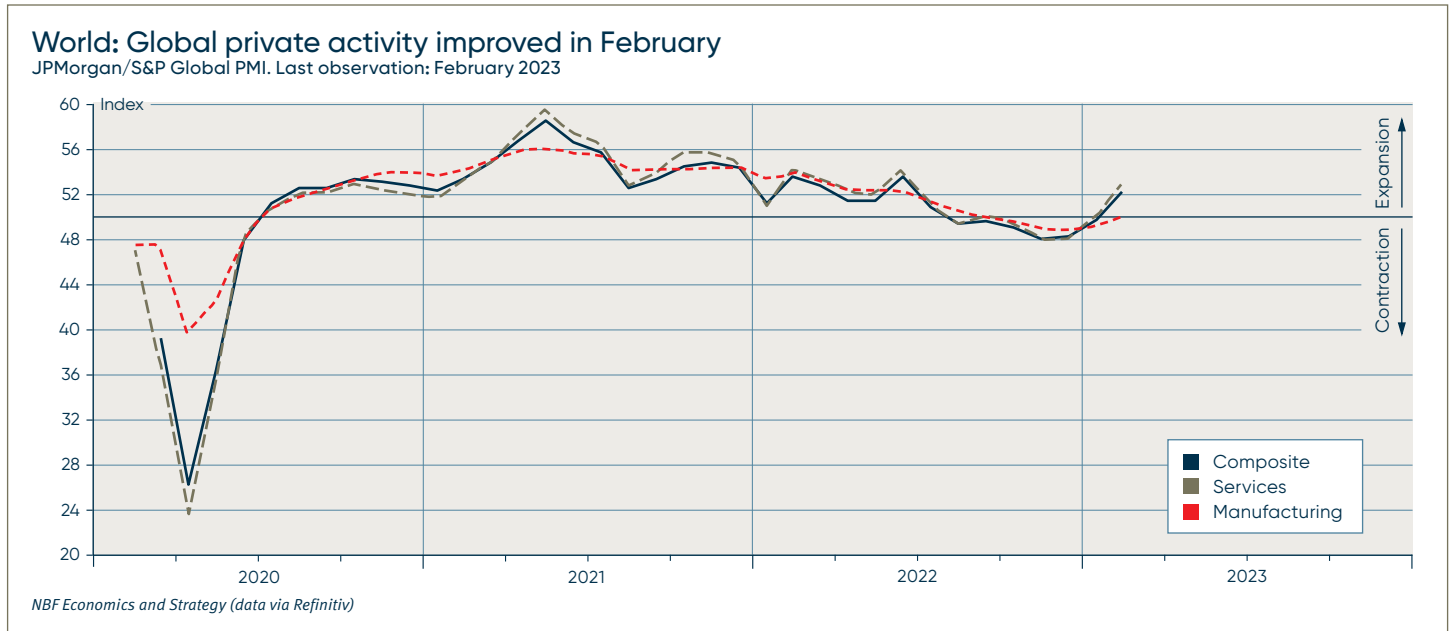


Investment Strategy

World

While the beginning of 2023 did not look particularly good for the global economy, lower natural gas prices in Europe and the reopening of the Chinese economy have led to renewed strength. In the eurozone, a milder-than expected winter allowed the private sector to expand early in the year, according to data released by S&P Global, contrasting with the contraction many had anticipated. In China, meanwhile, the effects of the abandonment of the COVID zero policy led to the strongest private sector expansion in eight months in February. Improving conditions in both regions, combined with more resilient than expected economic data in the U.S., should result in a healthy expansion of the global economy in the first half of the year.

Global markets were shaken by bank failures in the first quarter of the year, but we do not expect contagion to the real economy at this time. Over the longer term, however, the outlook remains highly uncertain. Despite concerted action by several central banks, inflation appears to be more persistent than expected in many parts of the world, which could force additional rate hikes. This would inevitably weigh on growth in late 2023 and early 2024. The eurozone seems particularly vulnerable in this context, as the European Central Bank must control stubbornly high inflation despite already tight credit conditions. Global economic growth is expected to be weak at 2.6% in 2023 and 2.3% in 2024.



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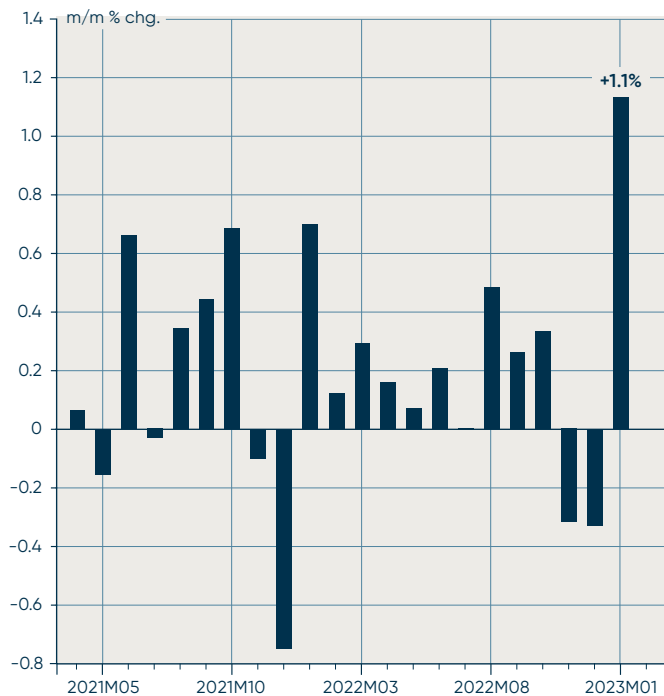
United States

After showing clear signs of weakness at the end of 2022, several U.S. economic data have started 2023 on a high note. Household consumption and business investment were much stronger than expected in January, as was the strength of the labour market. All this good news should translate into very healthy economic growth in the first quarter of the year, but it also raises serious questions about the future path of monetary policy. Indeed, supported by continued strong demand, inflation was more persistent than expected in January, which certainly raised the eyebrows of more than one FOMC member. However, in its haste to bring inflation back to its target level (a laudable goal), the Federal Reserve could inflict a major blow to the economy. The debacles in the U.S. banking system, which was rocked by bankruptcies earlier this year, are a good warning. While they

cannot be blamed entirely on rising rates, the failures have sent a chill through financial markets as investors question whether monetary policy should be tightened further. Despite this reaction, we do not currently expect these difficulties to have a significant impact on the real economy and believe that the resilience of the economic data will lead the Federal Reserve to continue to raise its policy rate. The intensity of the impact on the economy will depend on the level of the terminal rate, which we expect to be 5.5%. In such an environment, it is unlikely that the U.S. economy will get by without two or three quarters of negative growth. Any increase beyond this point would only rise the risks of a full-blown recession. We expect economic growth of 1.4% in 2023, followed by a contraction of 0.4% in 2024.

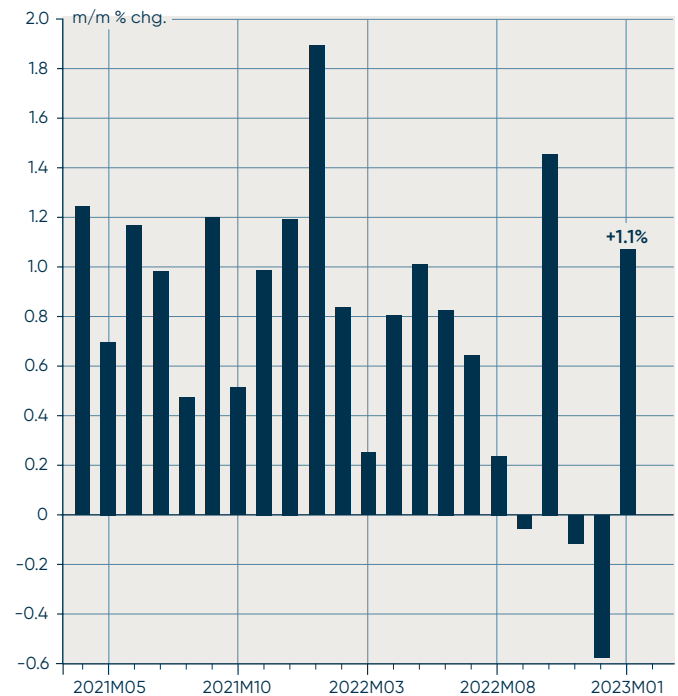
U.S.: A surprising start to the year

Real consumption expenditure



NBF Economics and Strategy (data via Refinitiv)

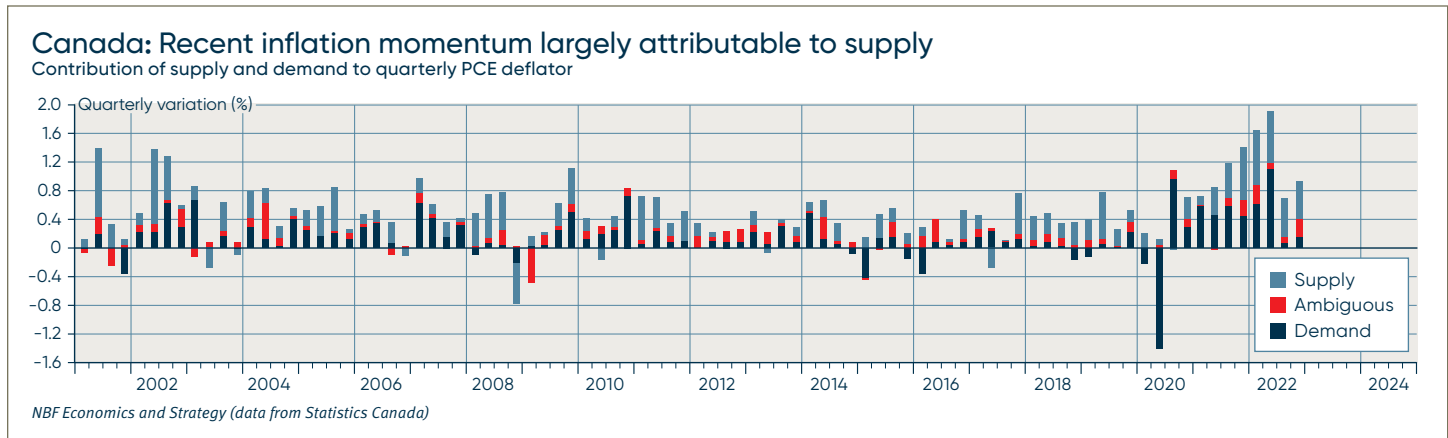
Shipments of non-defense capital goods excluding aircraft (proxy for business investment in machinery and equipment)



Canada

The Bank of Canada, which opted for a pause in its monetary tightening cycle in January, is likely to maintain this strategy despite strong employment data in January and February. Indeed, this strength may be short-lived based on economic growth, which surprised on the downside in the fourth quarter with weakness in investment and corporate profits. Rate hikes have been extremely aggressive and will continue to weigh on the economy with a lag, especially since Canada is likely to import some of the monetary tightening that may continue in the United States. Growth in the first quarter of 2023 is expected to be decent, but we anticipate a sluggish economy in the subsequent quarters,

which should result in an essentially flat one-year variation. This would result in economic growth of 0.7% in 2023 and 0.6% in 2024. This argues for patience on the part of the central bank, especially as encouraging developments are beginning to emerge on the inflation side. Already in the second half of 2022, we observed that the pressure of demand on inflation had clearly diminished compared to the previous quarters. Given that tight monetary policy is likely to continue to weigh on demand in the coming months, interrupting the tightening cycle remains the best option at this time.



Investment Strategy

The highly volatile market environment that characterized most of 2022 continued into the first quarter of the new year, with economic data sending often contradictory messages. Thus, after a strong month of January that led to significant gains for both stocks and bonds, the rally faltered in the following weeks as investor sentiment deteriorated.

Initially, the market's enthusiasm was based on a scenario of rapidly slowing inflation that would allow central banks—which had already adopted a more conciliatory tone at the beginning of the year—to stop their cycle of rate hikes imminently. In addition, the resilience of the labour market, the substantial drop in energy prices in Europe and the reopening of China represented favourable developments for global economic growth.

However, the picture quickly became more complex as the quarter went on. Several inflation measures proved more persistent than expected—particularly in the U.S. and in Europe—in the face of economic activity that continues to surprise to the upside, implying that the Fed and the European Central Bank will have to continue to tighten the cycle for longer than the markets had hoped. In addition, financial vulnerabilities have emerged from some U.S. regional banks, and many leading indicators point to elevated risks of recession in the medium term.

In the end, the current economic climate remains highly uncertain, and investors should expect market volatility to continue for some time. In the ideal scenario, a more balanced labour market would lead to a deceleration in both wage growth and core inflation, thus opening the door to less restrictive monetary policies from central banks. While not impossible, this scenario seems unlikely at this point, as the cautionary signals continue to mount.

Under the circumstances, we reduced the weight of equities within our tactical asset allocation for a fourth consecutive quarter at the end of February. True to our previously stated intentions, this change was made in favour of fixed income, as the rise in bond yields suggests increasingly attractive risk/return properties for the asset class, especially in the event of a recession. Thus, our defensive positioning is underweight equities, slightly overweight bonds, and overweight cash. In terms of geography, we have slightly lowered the weight of U.S. equities in favour of EAFE, bringing both regions to a neutral allocation relative to the benchmark. Finally, we are maintaining our overweight in Canadian equities, which benefit from attractive valuations, in contrast to emerging markets, which seem more expensive on a relative basis and are more exposed to rising geopolitical tensions between the West and China.

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%	8.25%	0.0%
	Fixed income (duration: 7.25 years) ¹	60% to 100%	70.0%	70.25%	1.5%
	Canadian equities	0% to 30%	8.0%	7.75%	-0.75%
	U.S. equities		8.0%	6.50%	-0.75%
	Foreign equities		4.0%	2.25%	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.	Cash equivalents	0% to 20%	5.0%	9.5%	0.0%
	Fixed income (duration: 7.25 years) ¹	45% to 80%	55.0%	56.5%	2.0%
	Canadian equities	20% to 45%	14.0%	13.5%	-1.0%
	U.S. equities		14.0%	11.5%	-1.0%
	Foreign equities		7.0%	4.0%	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.	Cash equivalents	0% to 20%	5.0%	9.0%	0.0%
	Fixed income (duration: 7.25 years) ¹	30% to 65%	40.0%	42.5%	2.5%
	Canadian equities	30% to 65%	18.0%	17.5%	-1.0%
	U.S. equities		18.0%	15.5%	-1.0%
	Foreign equities		9.0%	5.5%	-0.5%
	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%	9.0%	0.0%
	Fixed income (duration: 7.25 years) ¹	20% to 45%	30.0%	32.5%	2.5%
	Canadian equities	40% to 75%	22.0%	21.5%	-1.0%
	U.S. equities		22.0%	19.5%	-1.0%
	Foreign equities		11.0%	7.5%	-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%	5.0%	9.5%	0.0%
	Fixed income (duration: 7.25 years) ¹	0% to 30%	15.0%	19.0%	4.0%
	Canadian equities	55% to 100%	26.0%	25.0%	-1.5%
	U.S. equities		26.0%	23.0%	-1.5%
	Foreign equities		13.0%	8.5%	-1.0%
	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				June 2023		December 2023		December 2024		
	2021	2022	2023	2024	Canada	U.S.	Canada	U.S.	Canada	U.S.	
FORECAST	Gross Domestic Product %				Rate %						
	Canada	5.0	3.4	0.7	0.6	Short-term rates (T-bills, 91-day)					
	U.S.	5.9	2.1	1.4	-0.4	4.45	5.35	4.10	5.25	2.90	3.60
	Inflation %				10-year bond yields						
	Canada	3.4	6.8	3.1	1.9	3.20	3.90	2.85	3.50	2.70	3.10
	U.S.	4.7	8.0	3.7	1.4	30-year bond yields					
					3.10	3.85	2.95	3.55	2.80	3.20	
Canadian Dollar					US \$0.72		US \$0.76		US \$0.75		

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