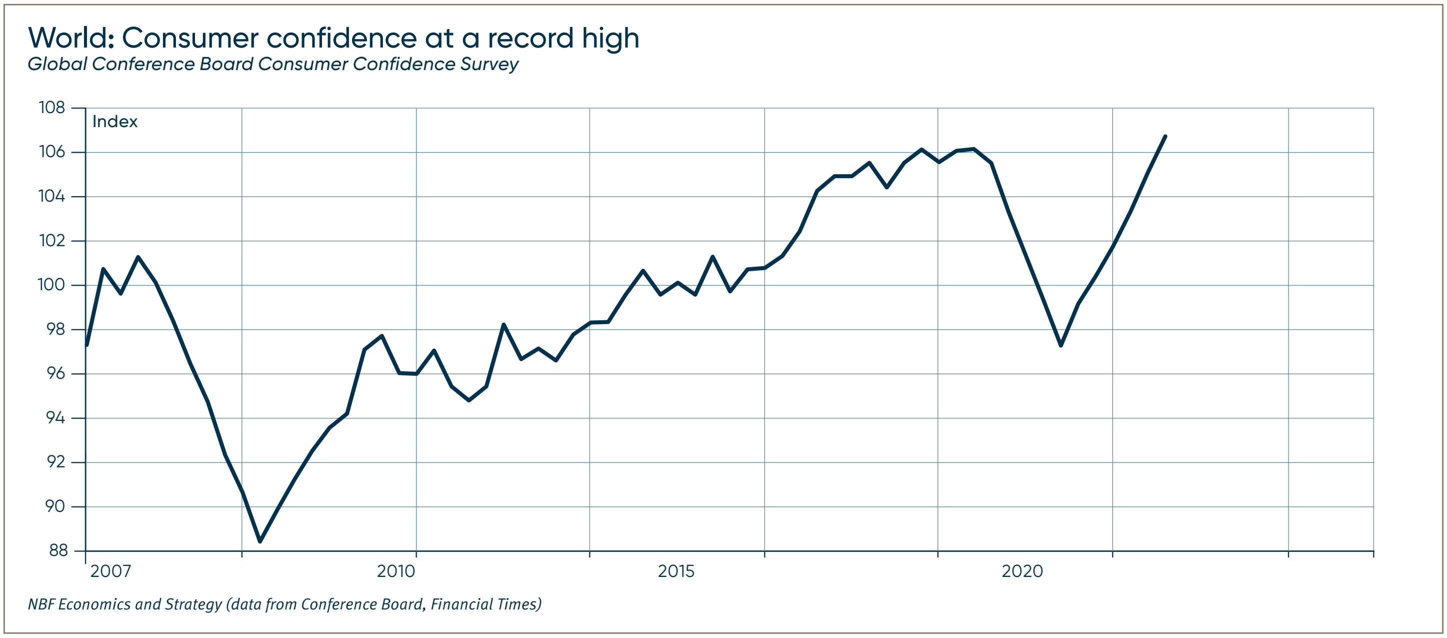
June 2021
Building your financial future

Investment Strategy

World

As the pandemic loses its grip because of accelerated vaccine rollouts, many countries are starting to ease their physical distancing rules. According to the Conference Board, global consumer confidence recently climbed to an all-time high. The second half of the year promises a rebound so solid in advanced economies that we think some producers will struggle to meet demand, something that could lead to price increases more vigorous than those we were used to before the pandemic. Our forecast of global growth in 2021 is unchanged at 6.0%, with an upward revision for the OECD countries offset by a slightly slower growth outlook for the emerging economies. Also unchanged is our forecast of 4.5% for 2022.



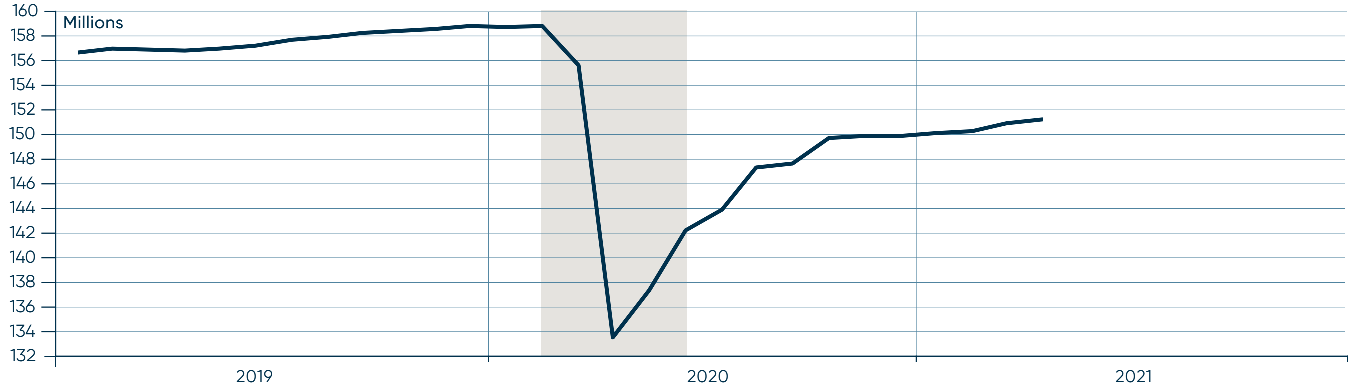
In this issue

NATIONAL BANK FINANCIAL
WEALTH MANAGEMENT

United States

The U.S. economy sustained a brisk pace of recovery in the first quarter of the year despite maintenance of some physical distancing rules. Real GDP expanded at an annual rate of 6.4%. This growth left GDP only 0.9% short of its pre-pandemic high. We expect further acceleration of growth in Q2, to an annual rate in the neighbourhood of 10%. Our optimism is based on the progress of the U.S. vaccine rollout. The success of U.S. vaccination efforts can be expected to allow a more complete reopening of the economy, which will in turn allow consumers to make good use of funds put aside during the pandemic. With the second quarter looking stronger than first thought, we have raised our forecast of 2021 growth to 6.9%. We expect that inflation will remain in a range acceptable to the Federal Reserve over the coming year as employment is still about 8 million below its pre-pandemic level.

U.S.: Employment remains well below pre-pandemic levels
Household employment

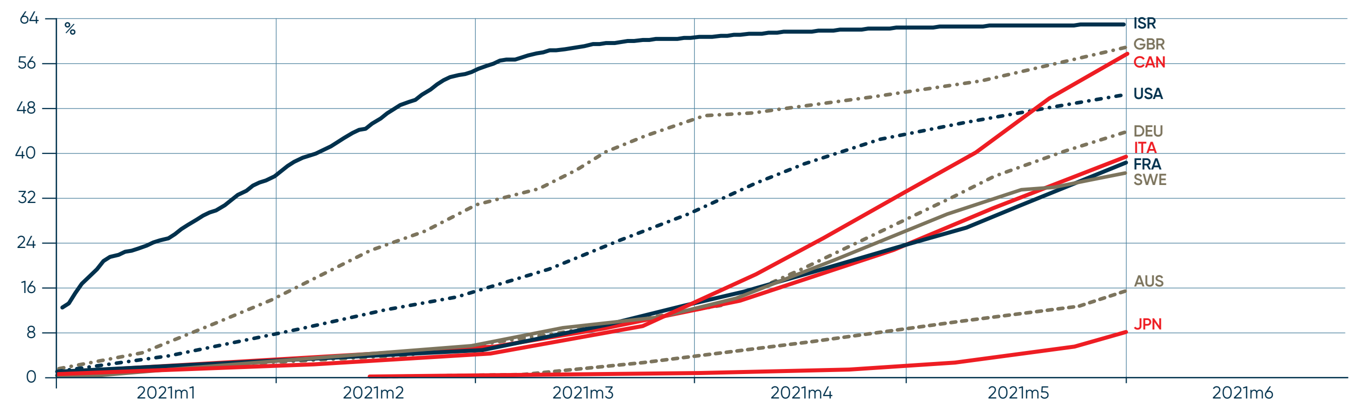


NBF Economics and Strategy (data via Refinitiv)

Canada

Vaccination rollout, after a slow start, has picked up speed since early April. At the beginning of March, the percentage of Canadians injected was 10 points behind the percentage of Americans, but the gap has now disappeared. In light of Canada's economic resilience, we are revising our forecast of 2021 growth up to 6.0% (previously 5.6%). The first-quarter surge was even more spectacular than previously expected. After a temporary pause in the recovery due to public-health measures in Q2, impressive growth can be expected as physical-proximity services reopen. Consumption is thus likely to firm up, all the more so given that households have accumulated astronomical excess savings (8% of GDP in 2020). The federal budget tabled in April, more generous than expected in the short term, is another factor in our upward revisions. Our forecast for nominal growth is now more than 12%, not seen in 40 years. It's that the widespread rise in raw-material prices has caused a spectacular improvement in terms of trade over the last year.

Canada: From lagger to leader
*Share of population that received at least one dose of COVID-19 vaccine over time**



* As of May 30, 2021
NBF Economics and Strategy (data via https://ourworldindata.org/covid-vaccinations)

Investment Strategy

Equity markets reached new heights over the second quarter of 2021, bolstered by the success of the ongoing vaccination campaigns as over half of the U.S. and Canadian populations had received at least one dose of a COVID-19 vaccine. With new cases significantly down across developed countries and the gradual lifting of restrictions, cyclical sectors fared particularly well, comfortably surpassing their more defensive counterparts. At the other end of the risk spectrum, bonds tread water for most of the springtime, offering a reprieve to the asset class after a more challenging start of the year. All in all, the second quarter proved to be rather positive for investors, but many are becoming increasingly concerned about the inflationary pressures that have started to surface.

With economies reopening after more than a year of restrictions and generous government handouts, many sectors such as those related to tourism are seeing substantial supply and demand imbalances, which, in turn, puts upward pressure on prices. This is indeed what the most recent data show, and this phenomenon should continue throughout the year, although its magnitude and timing are hardly predictable.

Whether higher inflation persists or dissipates beyond these transitory forces will depend strongly on economic agents' expectations, and the reason is simple: as long as a majority of consumers expect long-term inflation to remain stable, any abnormal rise in prices should incline people to delay their purchases (when possible) until prices stabilize. Conversely, if a majority believe that prices are bound to continue to rise significantly faster, we are likely to see a self-reinforcing dynamic where consumers accelerate their purchases, businesses raise prices to preserve their profit margins, and workers demand higher wages to protect their purchasing power. For now, indicators reflecting investors' and consumers' inflation expectations indicate that both expect price pressures to be mostly transitory.

Overall, our base-case scenario, assuming (i) a sharp recovery in economic activity driven by a significant reduction in the constraints imposed by the pandemic, (ii) strong upward pressure on prices, and (iii) the maintenance of an accommodative stance by major central banks, continues to bear out. Accordingly, we continue to favour equities over fixed-income assets, with a preference for the most cyclical segments of the stock market, a strategy that once again proved convenient throughout the second quarter.

As the summer progresses and some form of normalcy sets in, economic data will likely continue to produce surprises given that there is simply no precedent in modern history to provide meaningful insight into a post-pandemic world. Nonetheless, the volatility that followed the announcement of high inflation figures last quarter has already somewhat tempered the market's optimistic sentiment, suggesting more muted downside risks for stocks.

Going forward, a crucial element to watch will be the evolution of the Federal Reserve's guidance in tandem with the labour market recovery. For now, bond markets appear to be standing exactly where the Fed wants them, but for this to remain the case, the U.S. Central Bank will have to strike the right balance between coherence, credibility, and predictability—no easy task. Assuming the pandemic continues to yield to existing vaccines and variants are effectively suppressed, the primary risk to our outlook going forward will no longer be the evolution of COVID-19 but instead how markets might react to any talk of tapering from the Fed. Well aware of the challenges ahead, we should, however, expect monetary policy makers to exercise great caution in the process.

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%	4.0%	0.0%
Fixed income (duration: 5.50 years)[1]	60% to 100%	70.0%	65.0%	-1.0%
Canadian equities	0% to 30%	8.0%	10.5%	0.5%
U.S. equities		8.0%	10.5%	0.5%
Foreign equities		4.0%	5.0%	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%	3.5%	0.0%
Fixed income (duration: 5.50 years)[1]	45% to 80%	55.0%	50.0%	-1.0%
Canadian equities	20% to 45%	14.0%	16.5%	0.5%
U.S. equities		14.0%	16.5%	0.5%
Foreign equities		7.0%	8.5%	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: 5.50 years)[1]	30% to 65%	40.0%	35.0%	0.0%
Canadian equities	30% to 65%	18.0%	20.5%	0.0%
U.S. equities		18.0%	20.5%	0.0%
Foreign equities		9.0%	11.0%	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: 5.50 years)[1]	20% to 45%	30.0%	25.0%	0.0%
Canadian equities	40% to 75%	22.0%	24.5%	0.0%
U.S. equities		22.0%	24.5%	0.0%
Foreign equities		11.0%	13.0%	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: 5.50 years)[1]	0% to 30%	15.0%	10.0%	0.0%
Canadian equities	55% to 100%	26.0%	28.5%	0.0%
U.S. equities		26.0%	28.5%	0.0%
Foreign equities		13.0%	15.0%	0.0%
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

	2019	2020	2021 (Forecast)	2022 (Forecast)
Gross Domestic Product %				
Canada	1.9	-5.3	6.0	4.0
U.S.	2.2	-3.5	6.9	4.3
Inflation %				
Canada	1.9	0.7	2.7	2.5
U.S.	1.8	1.3	3.8	2.9

	June 2021		December 2021		December 2022	
	Canada	U.S.	Canada	U.S.	Canada	U.S.
Rate %						
Short-term rates (T-bills, 91-day)	0.10	0.05	0.15	0.05	0.70	0.15
10-year bond yields	1.40	1.50	1.75	1.85	2.20	2.20
30-year bond yields	1.95	2.20	2.15	2.40	2.45	2.65
Canadian Dollar	US $0.84		US $0.83		US $0.81	