September 2021
Building your financial future

Investment Strategy

World

More than a year after the WHO declared a global pandemic, SARS-CoV-2 continues to impede global economic growth. We already knew that vaccines were less effective against the Delta variant, and now new data from Israel cast doubt on the long-term protection offered by inoculation campaigns. The economic recovery that was already underway has been slowed, but not reversed. In advanced economies, vaccines are now readily available. This should allow for the rapid deployment of booster doses that will limit the virus's adverse effects on growth.

In emerging economies, the deteriorating health situation, coupled with inadequate or no budget support, is certainly affecting household confidence, even in a context where general containment remains relatively rare. Everywhere, the virus continues to disrupt supply chains and put upward pressure on prices. Against this backdrop, we have decided to revise our global growth forecast for 2021 downward from 6.0% to 5.6% to reflect the impact of the Delta variant and the production constraints it creates. We anticipate a 4.5% expansion next year.

Developed economies: Delta variant is slowing recovery
Citi Economic Surprise Index for the G-10 countries

NBF Economics and Strategy (data from Bloomberg)

NATIONAL BANK FINANCIAL
WEALTH MANAGEMENT

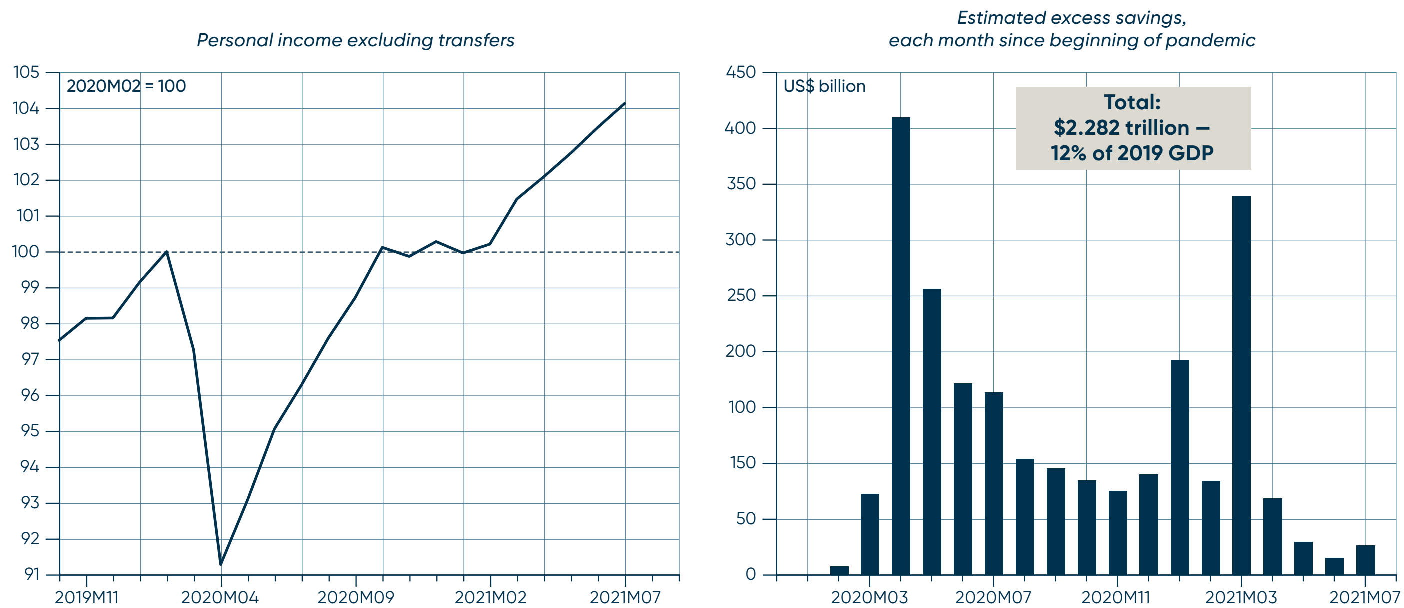
In this issue

World 1
United States 2
Canada 3
Investment Strategy 3
Model Portfolios 4
Forecast 4

United States

Like many other countries, the United States is currently experiencing a wave of Delta variant infections. The increase in cases has lowered consumer confidence, but the economic effects of the current wave of COVID-19 appear to be much more limited than in the past, as authorities are now less quick to impose strict distancing rules. However, there are still other things to watch for, including the expiration of several budgetary income support programs. Since the beginning of the crisis, we noted several times the importance of these programs in supporting consumption. While we recognize that it will take time for employment to fully recover from the shock of the pandemic, we are not overly concerned about the possibility of an income shock derailing household consumption. Personal income excluding government transfers is already 4.1% above its pre-crisis level, and the outlook for employment is very encouraging with job openings at an all-time high. Add to this the excess savings accumulated since the beginning of the pandemic—equivalent to 12.0% of GDP according to our calculations—and households seem to be in a fairly good position to maintain a high level of spending after the withdrawal of emergency programs. This assumes, of course, that the increase in the price of several items does not erode their purchasing power too much. Recognizing the many risk factors (rising COVID-19 cases, incomplete rebound in employment, supply issues and rising inflation) and in light of weaker-than-expected GDP data in Q2, we have decided to revise down our growth forecast for the U.S. We now expect real GDP growth of 5.7% this year, followed by a 4.1% expansion next year.

U.S.: Households in good shape even without transfer payments



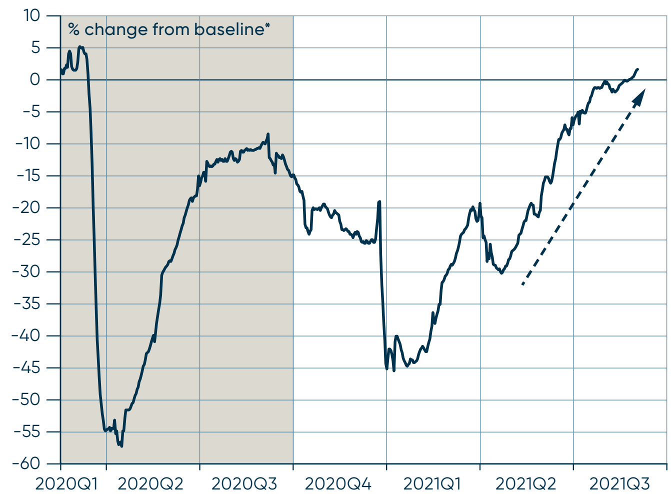
NBF Economics and Strategy (data from Bloomberg and Refinitiv)

Canada

While the contraction in real GDP in the second quarter was disappointing, it should be noted that the Canadian economic recovery remains enviable, particularly in nominal terms, with another impressive gain during the quarter. Canada's nominal GDP is now 5.1% above its pre-recession peak, putting the country in the lead among G7 countries due to the surge in commodity prices. Businesses have benefited from the environment with record profits, and households have also fared well with solid income gains. This, combined with the large amount of excess savings already accumulated by households (11.4% of GDP), means that consumers are well positioned to support the recovery. Nevertheless, we are lowering our real growth forecast from 6.0% to 5.0% in 2021. While the surprisingly weak GDP in the second quarter accounts for most of this revision, we have also reduced the expected pace of growth in the second half of the year. The lifting of health measures means a return to growth for consumption in Q3, but the outlook for Q4 remains cloudy with the increase in COVID-19 cases. Supply chain issues, as seen in the automotive sector, also pose a risk to the strength of the recovery.

Canada: Consumers come out of hibernation in Q3

Google mobility data for retail and recreation, 7-day moving average



** Baseline is median value of the corresponding day of the week during the 5 weeks from January 3 to February 6, 2020.*

NBF Economics and Strategy (data via Google)

Investment Strategy

The market environment remained risk-friendly during the summer months, extending the streak of positive quarters for equity investors to six. North American stocks fared particularly well, reaching new highs without much difficulty, while a clampdown on regulations in China generated more volatility for emerging markets. Meanwhile, demand for safer assets such as government bonds also proved strong, with 10-year Treasury yields remaining relatively low throughout the third quarter. This backdrop allowed faster-growing companies such as large U.S. technology stocks to reclaim ground relative to securities with more cyclical characteristics.

On the economic front, the latest corporate results have come in very strong. Expected earnings growth for the S&P 500 in 2021 is on track to reach its highest level since records began. Meanwhile, U.S. job creation has gained traction, although it will take several more months before it returns to pre-pandemic levels. As for inflation, figures have remained high in most cases. However, price increases still appear to be largely influenced by pandemic-specific factors, while long-term market and consumer inflation expectations remain stable.

In sum, the macro-financial picture remained rather benign over the summer, with most assets recording gains and the economic recovery proceeding without major hiccups. Yet, uncertainty is on the rise on several fronts.

Without returning to crisis status, the likelihood that the pandemic will have additional negative effects on consumer sentiment—and thus economic recovery—has increased recently. While vaccination remains the best protection against severe symptoms, the most recent data suggest some loss of effectiveness over time and against the Delta variant. In addition, the onset of the gradual withdrawal of monetary accommodation is likely to exert downward pressure on economic activity in the coming quarters. In fact, it appears that exceeding growth expectations is already becoming increasingly difficult. The Global Economic Surprise index recently moved into negative territory, a first after 14 consecutive months of better-than-expected data.

Notwithstanding the prevailing risks, it is important to keep things in perspective. While global economic growth will inevitably slow in the coming months, it should remain well above historical averages, supported by a substantial savings surplus, among other things. We should also expect policymakers to continue to exercise great caution in the conduct of monetary and fiscal policy, especially if the pandemic situation were to deteriorate. Under the circumstances, we remain relatively optimistic on the potential for equities to outperform. We have, however, slightly reduced our overweight in equities in favour of cash as a means of adding an extra degree of caution to our positioning after a fairly profitable period for risk assets.

MODEL PORTFOLIOS

Portfolio	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%	5.0%	1.0%
	Fixed income (duration: 5.50 years)[1]	60% to 100%	70.0%	65.0%	0.0%
	Canadian equities	0% to 30%	8.0%	10.5%	0.0%
	U.S. equities		8.0%	10.0%	-0.5%
	Foreign equities		4.0%	4.5%	-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%	5.0%	1.5%
	Fixed income (duration: 5.50 years)[1]	45% to 80%	55.0%	50.0%	0.0%
	Canadian equities	20% to 45%	14.0%	16.5%	0.0%
	U.S. equities		14.0%	16.0%	-0.5%
	Foreign equities		7.0%	7.5%	-1.0%
	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%	5.0%	2.0%
	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%	20.0%	-0.5%
	Foreign equities		9.0%	9.5%	-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%	5.0%	2.0%
	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%	24.0%	-0.5%
	Foreign equities		11.0%	11.5%	-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%	5.0%	2.0%
	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%	28.0%	-0.5%
	Foreign equities		13.0%	13.5%	-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

	2019	2020	2021 (Forecast)	2022 (Forecast)
Gross Domestic Product %				
Canada	1.9	-5.3	5.0	4.0
U.S.	2.3	-3.4	5.7	4.1
Inflation %				
Canada	1.9	0.7	3.1	2.8
U.S.	1.8	1.3	4.3	3.3

	September 2021		December 2021		December 2022	
	Canada	U.S.	Canada	U.S.	Canada	U.S.
Rate %						
Short-term rates (T-bills, 91-day)	0.20	0.05	0.20	0.05	0.65	0.20
10-year bond yields	1.25	1.40	1.35	1.50	1.70	1.90
30-year bond yields	1.80	2.00	1.90	2.10	2.10	2.30
Canadian Dollar	US $0.79		US $0.81		US $0.81	