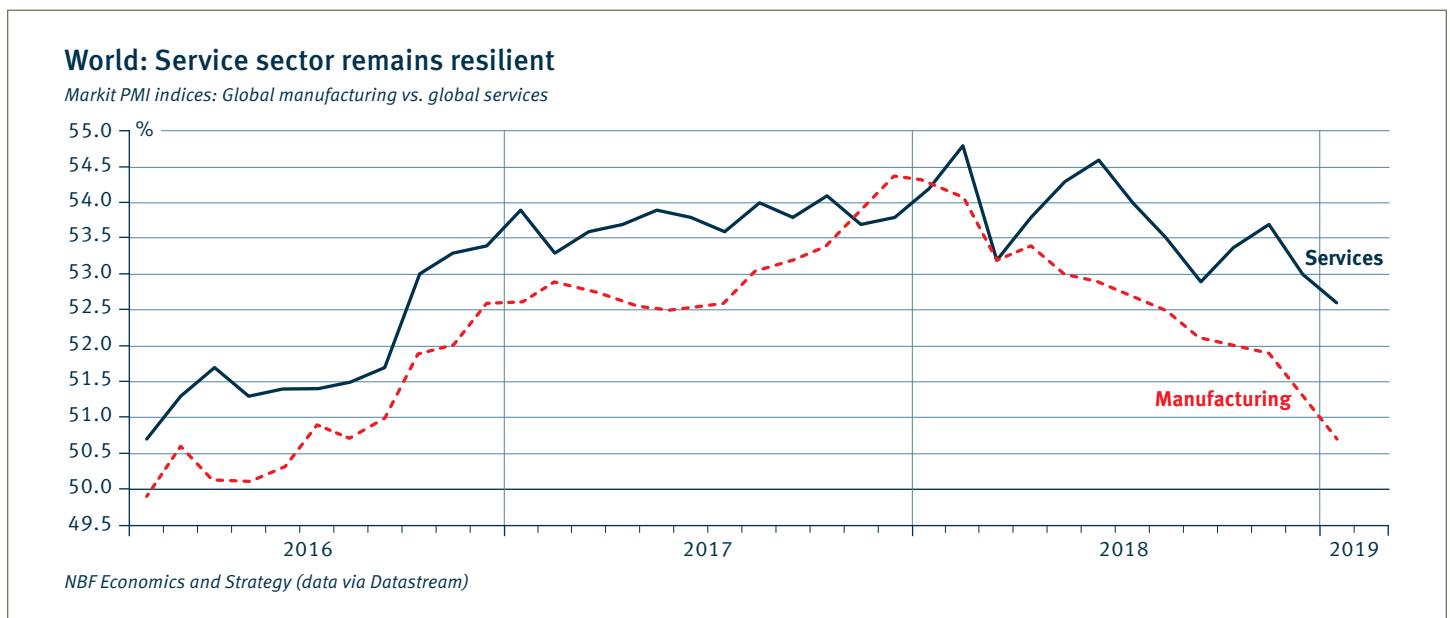


Investment Strategy

World

Global equity markets have staged a rebound in Q1 2019 despite lacklustre economic data. And there is a twist to the economic doldrums. While manufacturing, sapped by U.S.-China trade tensions and inventory swings, has been weak in the vast majority of countries, this has not been the case for services, which are the largest component of most economies – even China’s. With global shipping costs showing

signs of stabilization and commodity prices on the rise – copper at an eight-month high and oil the priciest since last November – the global economy may be set for acceleration in the second half of the year. At this writing, we continue to expect world GDP growth of 3.5% this year. Of course, this scenario assumes a de-escalation of protectionist trade tensions between the U.S. and its trading partners.



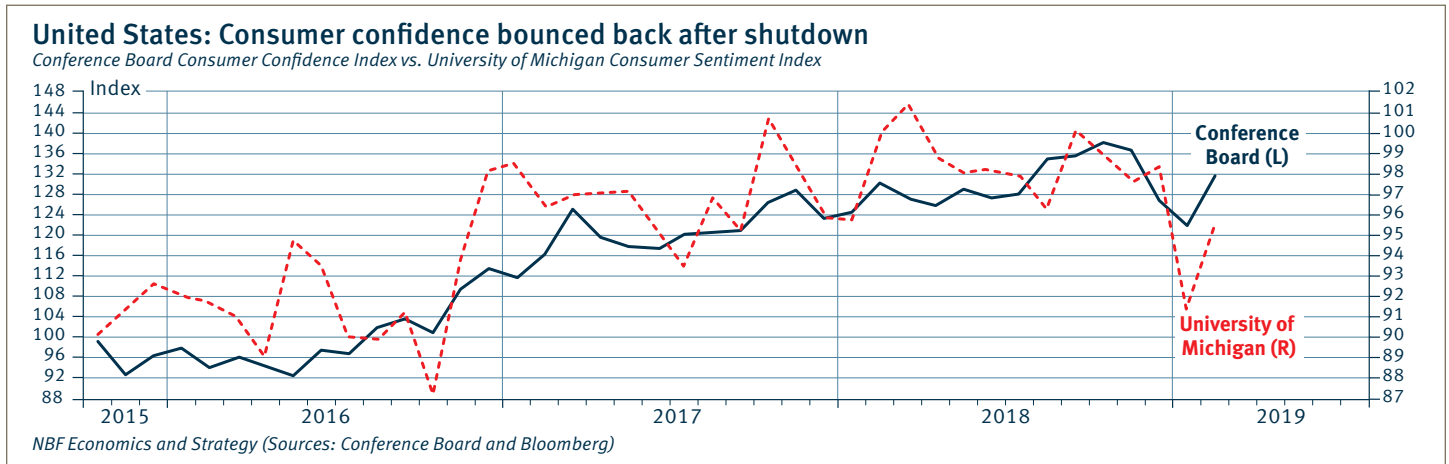
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United States

U.S. GDP growth for Q4 came in at a consensus-topping 2.6% annualized on the back of strong gains in domestic demand. Higher-frequency indicators continue to suggest economic expansion in the months ahead: consumer confidence rebounded strongly in February on continuing household optimism about the labour market. This should translate in the months ahead into faster profit growth, critical to further advance of the S&P 500. Well aware of the need to prevent

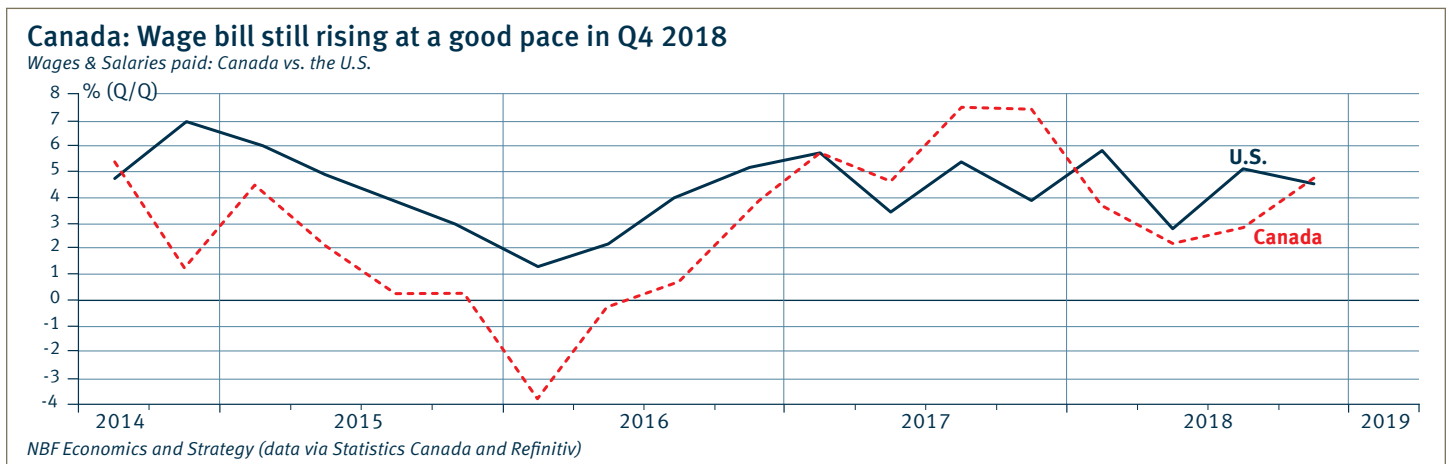
overtightening of financial conditions, the Federal Reserve will continue to be patient in its approach to normalize monetary policy. The Fed also understands that trade-related uncertainties (e.g., further ramp up in protectionism) and the possibility of an inverted yield curve could threaten the expansion. As long as inflation remains under wraps – the core PCE deflator remains below 2% on a year-on-year basis – the central bank can afford to be sidelined.



Canada

GDP growth in Q4 came in weaker than expected at only 0.4% annualized. Consumer spending was ugly and residential investment suffered from declining resale volume. Corporations also refrained from investing, probably waiting for the federal tax breaks to spur investment that were announced November 21. On the other hand, the wage bill for the quarter was up almost 5% annualized, better than in U.S. This development suggests a recovery in consumption as early as Q1 2019, especially since employment growth remained robust early in 2019. Also, Western Canadian Select (most of the oil produced in Canada) is now up 66% from its Q4 average and home resale volume show signs

of stabilization. While we're not particularly optimistic about resale home price gains this year, we doubt a severe correction is in the cards. That's because of a solid pool of prime-age workers. The employment to population ratio of the 25-54 age group last year averaged around 83%, or roughly three percentage points higher than in the U.S. That's all the more impressive considering Canada's prime-age population is growing faster this side of the border, courtesy of immigration. Indeed, 63% of the 303,257 immigrants Canada received last year were in the 25-54 age category, the highest share of prime-age workers in immigration on record.

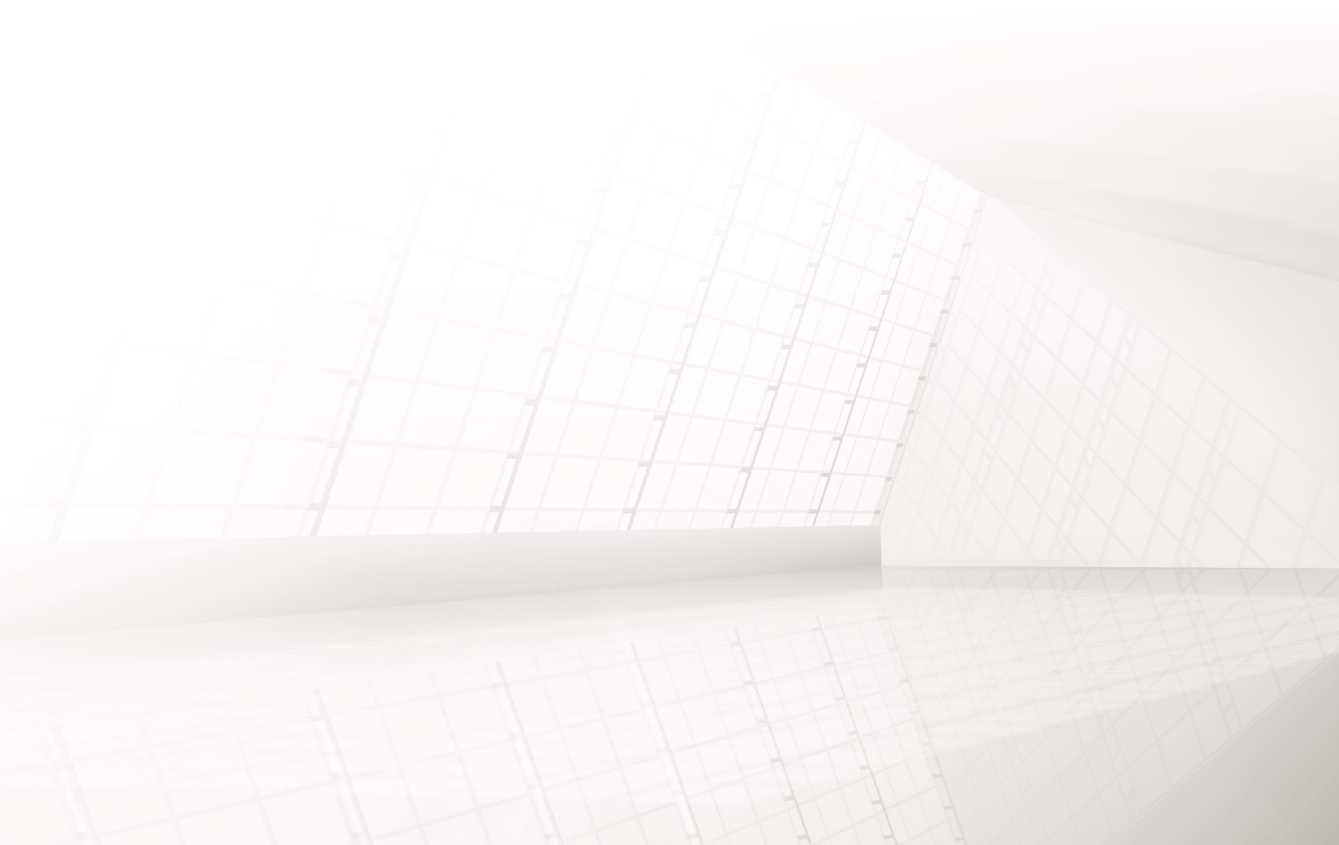


Investment Strategy

After a stormy year-end for global markets, the dust finally settled in the first quarter of 2019, with major global equity indices rebounding sharply in January. This outcome is partly explained by the fact that the usual suspects of recent market volatility – the Federal Reserve and the U.S. Administration – have done their utmost to put out the fires they inadvertently lit. For instance, Fed Chairman Jerome Powell has taken every opportunity to communicate its prudent and patient stance, even adding that it intends to announce a plan to stop reducing the Central Bank asset holdings later this year. As for Washington, the key event was unequivocally the decision to postpone the threat of increasing tariffs on Chinese imports, in light of trade talks progress. To be clear, this does not mean we are done hearing about trade tensions, but it does suggest that the worst of the tariffs spat is likely behind us.

These are all positive developments – largely in line with our base case scenario set at the beginning of the year – and we therefore continue to favour equities over safer fixed-income assets. Nevertheless, we took the opportunity presented by a near-perfect stretch of good news to trim our overweight to stocks by a fraction back in February. This way, we better aligned portfolios with the degree of volatility expected at this stage of the cycle, without, however, turning to defensive mode as economic fundamentals suggest it is too early to close the book on this bull market. Yes, global growth is shifting down a gear – a condition that requires extra attention in the coming months – but for now, we see nothing significantly beyond what was expected for 2019 nor indicative of an impending recession.

Market action in the last quarter has also inclined us to introduce some changes to our geographical equity mix, namely a reduction in U.S. equities to the benefit of both emerging markets and Canadian stocks. Without entirely throwing in the towel on our southern neighbour's main stock index, its higher volatility, higher valuations and greater exposure to an increasingly divided Washington called for a tactical reallocation into cheaper regions, in our view. What's more, should trade tensions continue to ease and global economic indicators stabilize as we expect, the U.S. dollar could give back some of its 2018 gains. This should pave the way for a further recovery in commodity prices and a revival of global trade flows especially beneficial to Canadian and emerging markets. Under this scenario, the loonie should continue to reclaim some of the ground lost over the course of last year's drop in cyclical assets, but it will require a return to monetary policy normalization by the Bank of Canada to really take off, which is unlikely to occur before the second half of the year.



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%	6.0%	0.0%
	Fixed income (duration: 6.2 years) ¹	60% to 100%	70.0%	66.0%	0.0%
	Canadian equities	0% to 30%	8.0%	9.0%	0.0%
	U.S. equities		8.0%	9.0%	-1.0%
	Foreign equities		4.0%	5.0%	1.0%
	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%	5.0%	0.0%
	Fixed income (duration: 6.2 years) ¹	45% to 80%	55.0%	51.0%	0.0%
	Canadian equities	20% to 45%	14.0%	15.5%	0.0%
	U.S. equities		14.0%	15.5%	-1.0%
	Foreign equities		7.0%	8.0%	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%	0.0%
	Fixed income (duration: 6.2 years) ¹	30% to 65%	40.0%	35.0%	0.0%
	Canadian equities	30% to 65%	18.0%	20.0%	0.0%
	U.S. equities		18.0%	20.0%	-1.0%
	Foreign equities		9.0%	10.0%	1.0%
	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.	Cash equivalents	0% to 25%	5.0%	5.0%	0.0%
	Fixed income (duration: 6.2 years) ¹	20% to 45%	30.0%	26.0%	0.0%
	Canadian equities	40% to 75%	22.0%	23.5%	0.0%
	U.S. equities		22.0%	23.0%	-1.5%
	Foreign equities		11.0%	12.5%	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%	0.0%
	Fixed income (duration: 6.2 years) ¹	0% to 30%	15.0%	11.0%	0.0%
	Canadian equities	55% to 100%	26.0%	27.5%	0.0%
	U.S. equities		26.0%	27.0%	-1.5%
	Foreign equities		13.0%	14.5%	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	Forecast				June 2019		December 2019		December 2020			
	2017	2018	2019	2020	Canada	U.S.	Canada	U.S.	Canada	U.S.		
	Gross Domestic Product %					Rate %						
Canada	3.0	1.8	1.7	1.7	Short-term rates (T-Bills, 91-Day)							
U.S.	2.2	2.9	2.3	1.9	1.71	2.46	2.13	2.68	1.79	2.52		
Inflation %	10-year bond yields						2.10	2.78	2.46	3.18	2.49	2.71
Canada	1.6	2.3	1.7	2.1	30-year bond yields							
U.S.	1.3	2.1	2.5	2.3	2.27	3.12	2.61	3.50	2.61	2.98		
					Canadian dollar		US \$0.79		US \$0.78		US \$0.76	

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