

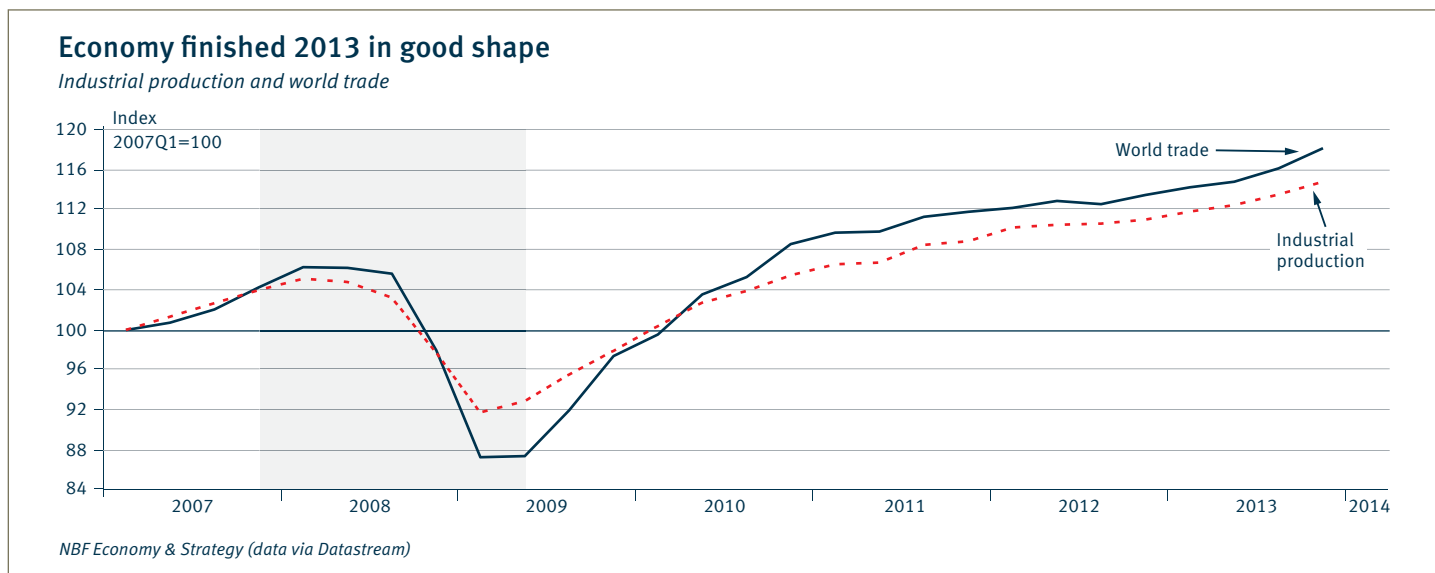


Investment Strategy

Global Economy

Thanks to a robust showing of the developed economies, the growth of global industrial production in the fourth quarter was the strongest in seven quarters (4.6% annualized), suggesting that the world economy finished 2013 in good shape. Moreover, global trade growth in the fourth quarter was the briskest in three years (7.1% annualized), an indication that the industrial output did not languish in inventory. The January Global Purchasing Managers Index for manufacturing came in at 52.9, signalling continued vigour early in the new year. Though for China, the index slipped below the

growth threshold of 50; however, this doesn't mean its economy is foundering. China's imports and exports in January were both up more than 10% from a year earlier. Its volume of imports of copper, iron ore and crude oil were at all-time highs, indicating strong demand. Global inflation remains tame, giving central banks room to continue stimulating their economies. In addition, governments will exert much less fiscal drag this year. We continue to see global economic growth accelerating to 3.7% this year from 3% last year.



In this issue

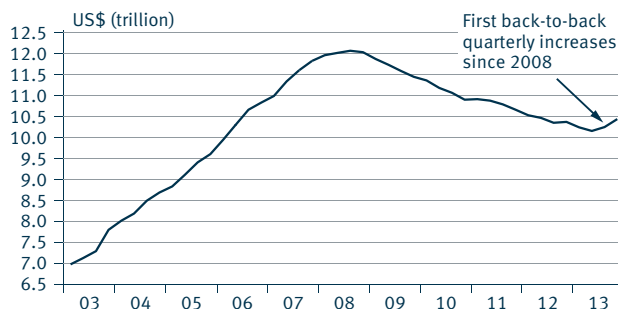
- Global Economy..... 1
- United States..... 2
- Investment Strategy..... 2
- Financial Markets..... 3
- Canada..... 3
- Model Portfolios..... 4
- Forecast..... 4

United States

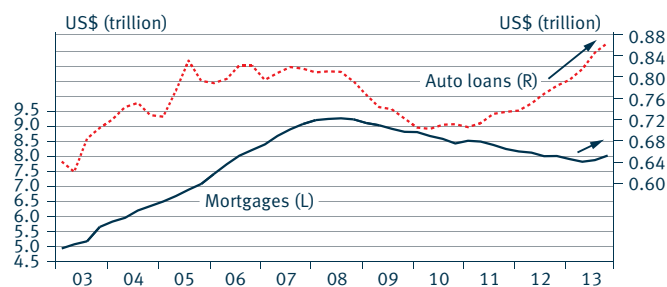
After a good second half in 2013, the US economy seems to have decelerated in the first quarter. But the main culprit has been bad weather, and the outlook remains upbeat. The private sector remains robust, buoyed by a rise in confidence and by the end of household deleveraging. Even excluding student loans, which have grown spectacularly in recent years, household debt increased for a second consecutive quarter, the first back-to-back rise since 2008. This development can be traced to a notable improvement of household net worth in 2013 as a result of rising home prices and an exceptional year for the stock market. Despite this break in the clouds, the housing market has been slow to improve in certain respects. Household formation is lagging the underlying demographic trend and the homeownership rate has yet to start rising again. The latest employment indicators suggest that this could change. While the payroll survey shows employment growth slowing in the last two months, the household survey shows an encouraging trend in full-time employment over the last six months. We expect US real GDP growth to accelerate to 2.8% this year from 1.9% last year, for reasons including an abatement of fiscal drag in 2014.

Re-leveraging in the works

Total household debt excluding student loans



Mortgage and auto loans



NBF Economy & Strategy (data via New York Fed)

Investment Strategy

After 2013 ended on a spectacular note for US stock exchanges, volatility has increased in financial markets since the start of 2014. As a result of weaker-than-expected economic data in the United States and rising uncertainties regarding some emerging markets, the value of fixed-income securities rebounded strongly in January while major stock exchanges were pulling back, with the exception of the Canadian market, which benefitted strongly from a significant rise in the price of gold. However, this apparent weakness in world markets was brief, as they recouped in February most of the ground lost over the previous month.

This short-term market correction is sound and augurs well for the remainder of 2014, as it takes out some of the frothiness linked to last year's relentless optimism. Risks remain numerous of course, but the probability that capital outflows from the most fragile economies will lead to a full-blown event like the Asian crisis of 1997 or the Russian crisis of 1998 is lower at a time when emerging markets have more flexibility in their exchange rates and more international reserves to support them. Moreover, the current weakness in the US economy is mainly linked to abnormally cold weather, which should set the stage for a significant rebound in the coming months. It is true that the Fed has started tapering its monthly purchases of bonds and should terminate its program by the end of the year, but the Fed should keep interest rates at 0% for as long as it takes to support the job market.

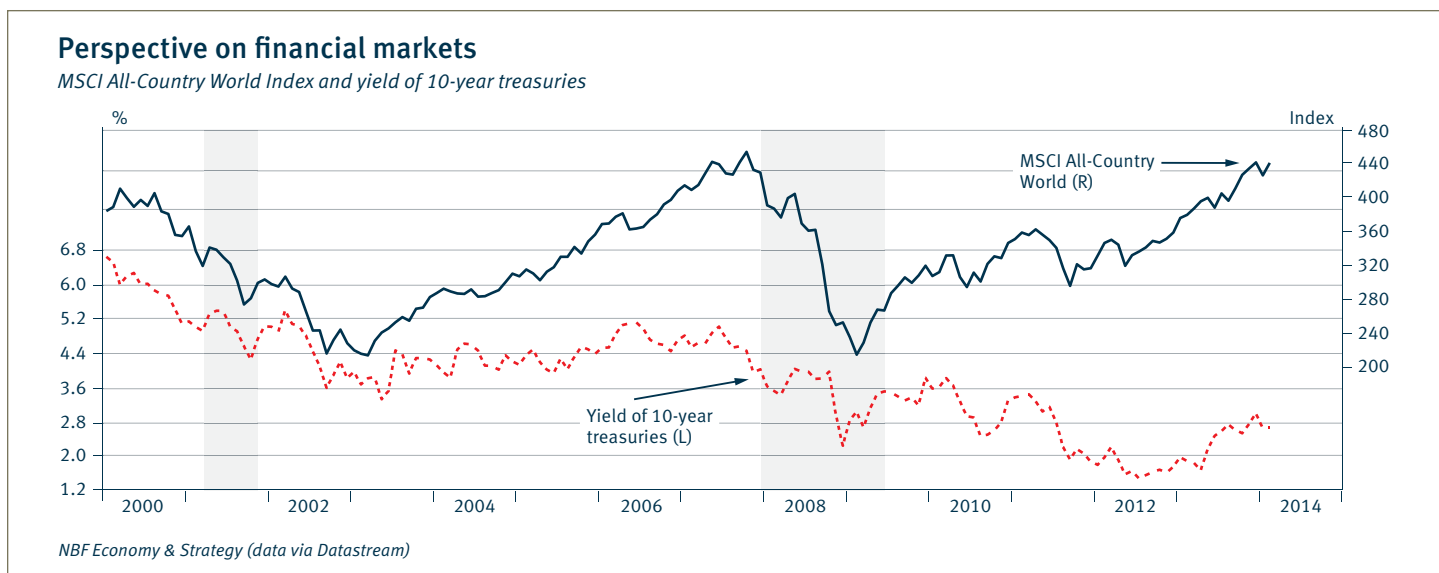
In these conditions, and despite returns well beyond our expectations last year, we think that stock markets still hold the highest growth potential over the short and longer term. Therefore, we are maintaining our strategy for the second quarter of 2014 and continue to favour stock markets relative to fixed-income securities. In equity markets, our biggest overweight remains the US market, which is expected to benefit from both the improving economy and an appreciation of its currency. European markets are also attractive and should benefit from important support from the European Central Bank shortly. Emerging market equities are probably the most undervalued, but the ongoing economic slowdown in parts of that region, combined with the reduction of the Fed's easing program, leaves developed markets with higher expected risk-adjusted returns. In terms of fixed income, portfolios should have a shorter duration compared to the benchmark. Moreover, while investment grade securities are increasingly expensive, we maintain our preference for high-yield issuers, which should continue to benefit from the improvement in the US economy. For investors with a lower risk tolerance, we continue to favour the addition of non-traditional revenue strategies that allow some protection in the event of a gradual rise in interest rates.

Financial Markets

Despite the US Federal Reserve (“the Fed”) announcing a second reduction of its monthly asset purchases in late January, the yield on 10-year Treasuries has fallen sharply since the beginning of the year. Firstly, US economic indicators have brought big downside surprises. Secondly, the Fed may be expecting to end its asset purchase program by the end of this year if the economy performs as it anticipates. It has taken care, however, to reinforce the message that it intends to keep interest rates low for a long time. In its next communication, the Fed could even modify its forward guidance on the fed funds rate and perhaps adjust its thresholds for the unemployment rate and inflation to add heft to its stated intentions. Given our scenario of a rebound of GDP growth after a slow start this year, we anticipate that the Fed will

taper its asset purchases to zero by October, but will keep the fed funds rate on the floor until at least the middle of 2015. We also expect the Bank of Canada to raise its policy rate in 2015.

At this writing, the equity-market volatility of earlier this year has subsided greatly. The MSCI All-Country World Index gained 3.6% in February, making up its January losses. The S&P 500 is very close to its all-time high of January. The S&P/TSX, after two years of egregiously lagging the global index, is up 4.5% year to date. The MSCI Emerging Markets Index, on the other hand, is down 3.3% from the beginning of the year, a sign of persistent investor apprehension.



Canada

Canadian economic growth, though less impressive than the US expansion in the second half of 2013, probably topped 2% in 2014. The recovery of credit in the US and the weakness of the loonie bode well for a revival of our exports after a lean 2013. Improved earnings and a better economic outlook are also likely to buy business investment and hiring. The labour market has lacked lustre recently, but has held up well enough to keep household incomes growing

at a respectable rate. A welcome development, since Canadians are resorting to consumer debt less than before, a trend likely to continue given household debt loads. We also expect deceleration in other components of GDP, including government expenditure and residential construction. We see Canadian GDP growth accelerating slightly to 2.3% in 2014, lagging US growth.

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%	3.0%	0.0%
	Fixed-income (duration: 5.25 years) ¹	60% to 100%	70.0%	66.0%	0.0%
	Canadian equities	0% to 30%	7.5%	9.0%	0.0%
	US equities		7.5%	11.5%	0.0%
	Foreign equities		5.0%	5.5%	0.0%
	Alternative investments ²	0% to 10%	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%	0.0%
	Fixed-income (duration: 5.25 years) ¹	45% to 80%	55.0%	51.0%	0.0%
	Canadian equities	20% to 45%	14.0%	16.0%	0.0%
	US equities		14.0%	17.5%	0.0%
	Foreign equities		7.0%	7.5%	0.0%
	Alternative investments ²	0% to 15%	5.0%	5.0%	0.0%
Balanced Portfolio					
Investor Profile: You give equal weight to income and capital growth. You can tolerate moderate volatility to ensure the growth of your capital, but you prefer having a portfolio with a significant exposure to fixed-income securities for reasons of stability. Your tolerance for risk is average.	Cash equivalents	0% to 20%	5.0%	1.0%	0.0%
	Fixed-income (duration: 5.25 years) ¹	30% to 65%	40.0%	36.0%	0.0%
	Canadian equities	30% to 65%	17.5%	19.5%	0.0%
	US equities		17.5%	22.5%	0.0%
	Foreign equities		10.0%	11.0%	0.0%
	Alternative investments ²	0% to 20%	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%	0.0%	0.0%	0.0%
	Fixed-income (duration: 5.25 years) ¹	25% to 45%	35.0%	28.5%	0.0%
	Canadian equities	40% to 75%	20.0%	21.0%	0.0%
	US equities		20.0%	25.0%	0.0%
	Foreign equities		15.0%	15.5%	0.0%
	Alternative investments ²	0% to 25%	10.0%	10.0%	0.0%
Maximum Growth					
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%	0.0%	0.0%	0.0%
	Fixed-income (duration: 5.25 years) ¹	0% to 30%	20.0%	12.0%	0.0%
	Canadian equities	55% to 100%	22.5%	24.5%	0.0%
	US equities		22.5%	28.0%	0.0%
	Foreign equities		20.0%	20.5%	0.0%
	Alternative investments ²	0% to 30%	15.0%	15.0%	0.0%

1) Dex Universe Index

2) Includes Hedge funds, Global real estate and Infrastructure, and Commodities

FORECAST	Forecast				March 2014		December 2014		December 2015		
	2012	2013	2014	2015	Canada	US	Canada	US	Canada	US	
	Gross Domestic Product %					Rate %					
Canada	1.7	1.8	2.3	2.6	Short-term rates (T-Bills, 91-Day)	0.91	0.05	1.03	0.11	1.96	0.82
US	2.8	1.9	2.8	2.9	10-year bond yields	2.59	2.79	3.30	3.50	3.77	3.88
Inflation %					30-year bond yields	3.07	3.74	3.60	4.22	4.01	4.49
Canada	1.5	0.9	1.4	1.9	Canadian dollar	US \$0.91		US \$0.92		US \$0.95	
US	2.1	1.5	1.4	1.6							

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