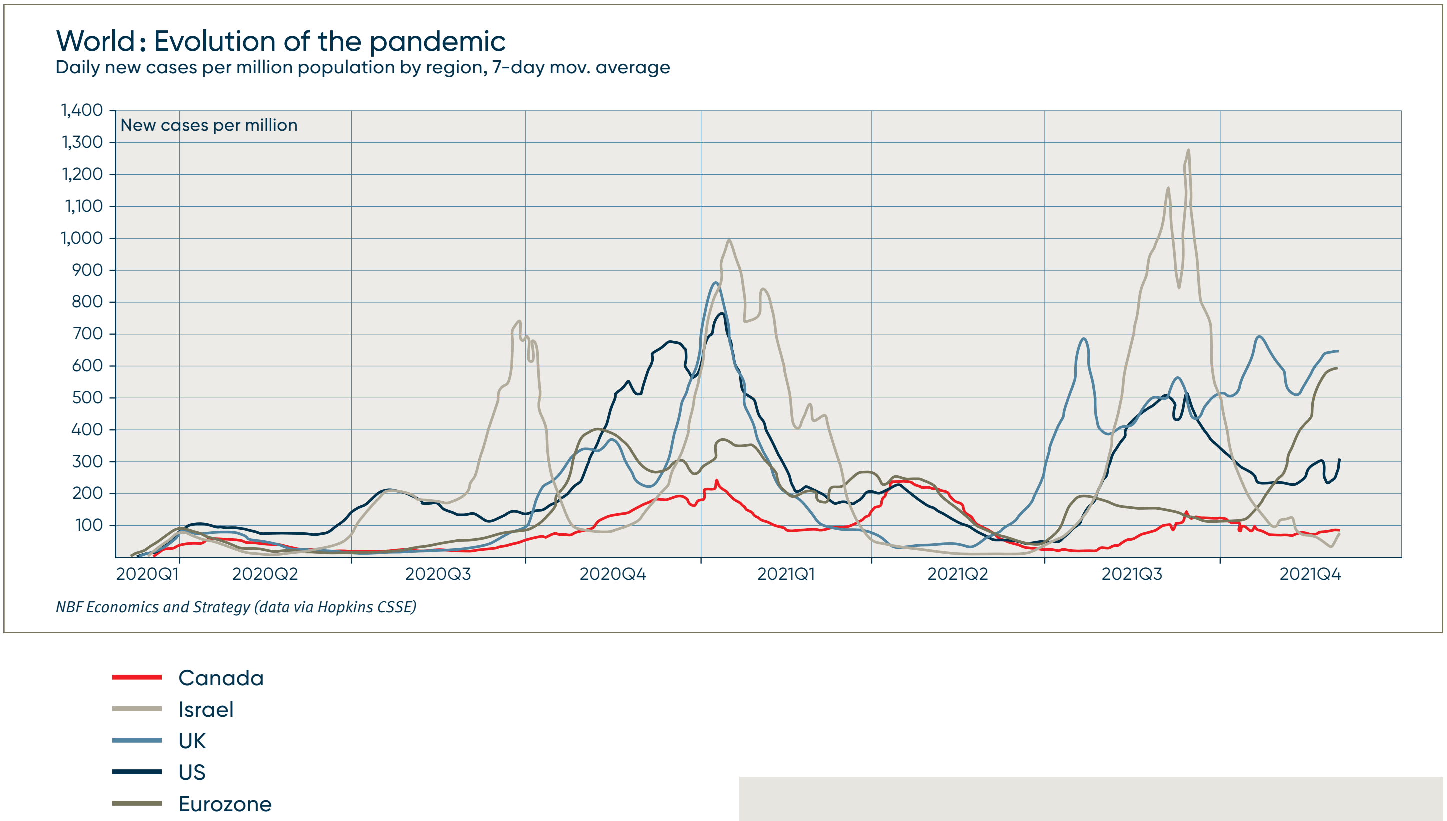
December 2021
Building your financial future

Investment Strategy

World

After a strong rebound, the global economy appears to be losing steam. In Europe, a rise in the number of COVID-19 cases coupled with a spike in energy prices could certainly dampen consumer spending and business profitability. The news coming out of China has also been mixed. Given soaring electricity prices earlier this year, Beijing was forced to impose temporary power cuts, which obviously had repercussions on manufacturing operations. Now that the energy situation is improving, COVID-19 is now limiting plant operations. The woes of the real estate sector, which is currently engaged in a painful debt reduction process, are also noteworthy. Despite these obstacles, the global economy is still expected to grow by 4.0%[1] in 2022, after posting 5.5%[1] growth this year. Of course, this assumes that the new Omicron variant does not force authorities to reimpose health measures to limit outbreaks.



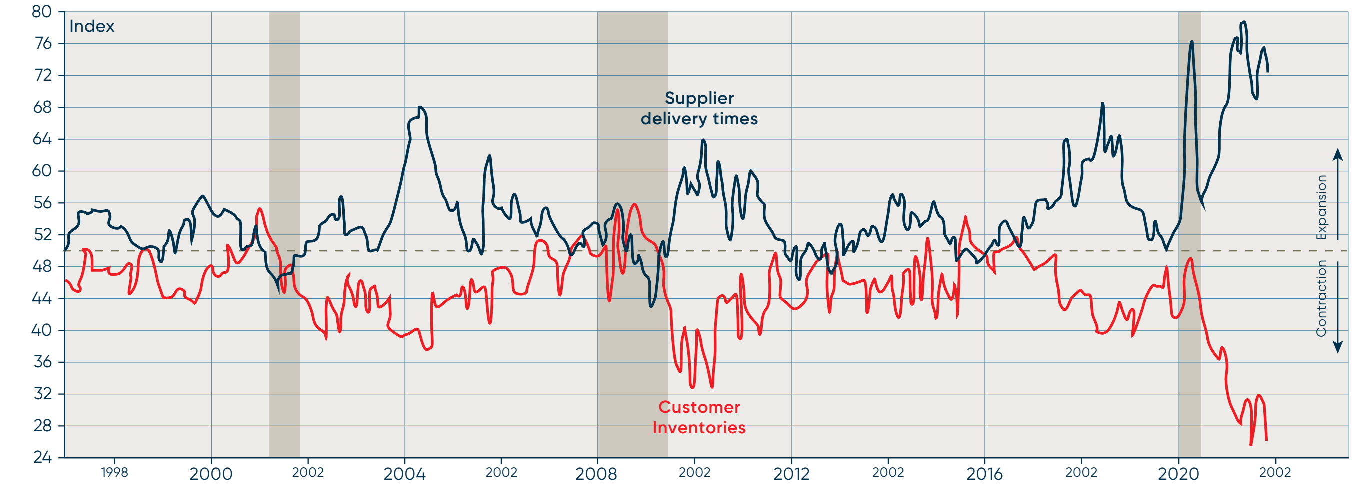
In this issue

NATIONAL BANK FINANCIAL
WEALTH MANAGEMENT

United States

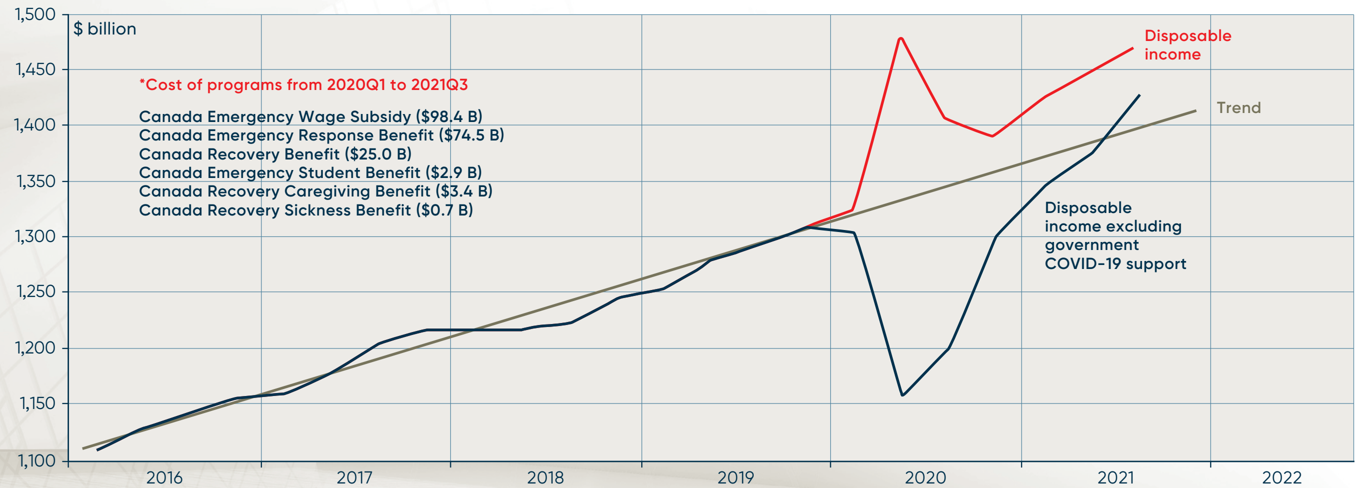
U.S. economic growth slowed abruptly in the third quarter. While consumption of services continues to recover, residential investment and consumption of goods are pointing to more moderate trends after spectacular growth in the last few quarters. Weak consumer goods spending has been exacerbated by increasingly acute supply problems, especially in the automotive sector. While it is hard to predict when the supply chain bottlenecks will disappear, it appears likely that some production limitations will persist for some time in 2022. We nonetheless remain confident that economic growth will accelerate in the final quarter of 2021 and that robust growth will continue in 2022 in a context of inventory rebuilding. As we have often mentioned in the past, U.S. households are doing very well, after accumulating huge amounts of excess savings since the onset of the pandemic. Their net worth has also risen significantly thanks to strong stock market performance and rising house prices. However, inflationary pressures are proving to be very persistent, a phenomenon that the Federal Reserve is increasingly recognizing and that could lead it to begin normalizing rates sooner than expected. We expect to see solid growth of 3.5%[1] in 2022, following 5.6%[1] growth in 2021.

United States: Supply chain constraints driving customer inventories lower
ISM Manufacturing PMI. Last observation: November 2021



NBF Economics and Strategy (data via Bloomberg)

Canada: Consumption not at risk without generous COVID-19 programs
Disposable income and disposable income excluding government COVID-19 support (annualized)*



NBF Economics and Startegy (data via Statistics Canada)

Canada

Unlike the global economy, which appears to be slowing down, the Canadian economy is performing very well in the second half of 2021. Employment has returned to pre-pandemic levels in just under 19 months. That's the fastest recovery seen in the past four recessions. There was reason to believe that after recovering all the jobs lost during the recession, the progression of the labour market would be slower thereafter. However, after an astounding sequence, the labour market surprised once again with bewildering strength in November, adding 150K net new jobs. Canada's private sector brought in 725,000 more workers between May and November, the largest increase ever seen excluding the post-lockdown reopening period in 2020. The labour market back at full employment suggests that Canadian households are ready to stand on their own with no more government extraordinary income support. Substantial surplus savings have already been amassed (12.0% of GDP), helping to cushion the blow of the rising cost of living. Resilient commodity prices should continue to benefit the Canadian economy, but supply chain disruptions and resulting inflation are a risk in the current environment. Our economic growth outlook is 4.6%[1] in 2021 and 4.1%[1] in 2022.

Investment Strategy

At this time last year, we based our optimism for equity markets on an accelerating economic cycle, monetary conditions more accommodating than ever, and the onset of mass vaccination. Despite heightened volatility during the fourth quarter, the full picture for 2021 was indeed excellent for North American equities, propelled by earnings growth that exceeded the expectations of most investors, including us. The environment proved to be more challenging for emerging markets, however, dampened by the uncertainty surrounding the economic and regulatory backdrop in China. In the fixed income space, after a more difficult start to the year, the subsequent quarters saw government bonds fluctuate with no clear direction, as uncertainty surrounding inflation, growth and central bank intentions took hold. Altogether, these trends have resulted in more-than-reasonable returns for most portfolios in 2021. Now, what can we reasonably expect – beyond the inevitable surprises – for 2022?

On the economic front, a look under the hood still shows significant imbalances. More specifically, the combination of strong household balance sheets and the relative persistence of the pandemic has channeled a high capacity to spend on goods, while service expenditures lagged far behind. In turn, this put intense pressure on supply chains, already strained by a series of port and factory closures in Asia. Ultimately, such supply/demand imbalances drove inflation to a three-decade high, driven largely by rising goods prices. In the coming months, a shift in demand from goods to services should help ease pressures on supply chains and overall prices. Nevertheless, this process will take time, such that inflation figures, while lower, will visibly remain high in 2022.

In short, the new year should see the economic cycle converge to a more sustainable pace as the imbalances exacerbated by the pandemic begin to wind down, paving the way for the gradual normalization of ultra-accommodative monetary policies. This backdrop remains supportive for risk assets, although we should expect returns closer to historical averages and more volatility after an especially profitable period. The main risk factor will likely be the evolution of major central banks' narratives toward inflationary pressures with rapidly changing dynamics.

Could COVID-19 disrupt this scenario? If the last 2 years have taught us anything, it is that we can never take anything for granted during a pandemic. The arrival of the new Omicron variant – whose impact remains highly uncertain at the time of writing – demonstrates that we have no other choice but to learn to live with this threat. Fortunately, we are increasingly well equipped, whether in terms of vaccination, antiviral treatments or, more generally, in terms of procedures. As such, the likelihood of renewed draconian measures on mobility serving as a blow to economic growth remains limited.

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 epidemic situation were to deteriorate. Under the circumstances, we are starting the year with a continued preference for equity markets over fixed-income securities. Geographically, we favour North American stocks, which offer diversified exposure to all sectors of the economy; this is an important asset given the level of uncertainty and, above all, the pace at which things are evolving.

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%	6.5%	1.5%
	Fixed income (duration: 5.50 years)[1]	60% to 100%	70.0%	63.5%	-1.5%
	Canadian equities	0% to 30%	8.0%	10.75%	0.25%
	U.S. equities		8.0%	10.75%	0.75%
	Foreign equities		4.0%	3.5%	-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%	6.5%	1.5%
	Fixed income (duration: 5.50 years)[1]	45% to 80%	55.0%	48.5%	-1.5%
	Canadian equities	20% to 45%	14.0%	17.0%	0.5%
	U.S. equities		14.0%	17.0%	1.0%
	Foreign equities		7.0%	6.0%	-1.5%
	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%	6.0%	1.0%
	Fixed income (duration: 5.50 years)[1]	30% to 65%	40.0%	34.0%	-1.0%
	Canadian equities	30% to 65%	18.0%	21.0%	0.5%
	U.S. equities		18.0%	21.0%	1.0%
	Foreign equities		9.0%	8.0%	-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%	6.0%	1.0%
	Fixed income (duration: 5.50 years)[1]	20% to 45%	30.0%	24.0%	-1.0%
	Canadian equities	40% to 75%	22.0%	25.0%	0.5%
	U.S. equities		22.0%	25.0%	1.0%
	Foreign equities		11.0%	10.0%	-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%	6.0%	1.0%
	Fixed income (duration: 5.50 years)[1]	0% to 30%	15.0%	9.0%	-1.0%
	Canadian equities	55% to 100%	26.0%	29.0%	0.5%
	U.S. equities		26.0%	29.0%	1.0%
	Foreign equities		13.0%	12.0%	-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	-5.2	4.6	4.1
U.S.	2.3	-3.4	5.6	3.5
Inflation %				
Canada	1.9	0.7	3.4	3.5
U.S.	1.8	1.3	4.6	4.5

	December 2021		June 2022		December 2022	
	Canada	U.S.	Canada	U.S.	Canada	U.S.
Rate %						
Short-term rates (T-bills, 91-day)	0.05	0.10	0.60	0.35	1.30	0.85
10-year bond yields	1.55	1.55	1.85	1.85	1.95	2.05
30-year bond yields	1.85	1.90	1.95	2.05	2.05	2.20
Canadian Dollar	US $0.79		US $0.83		US $0.81	