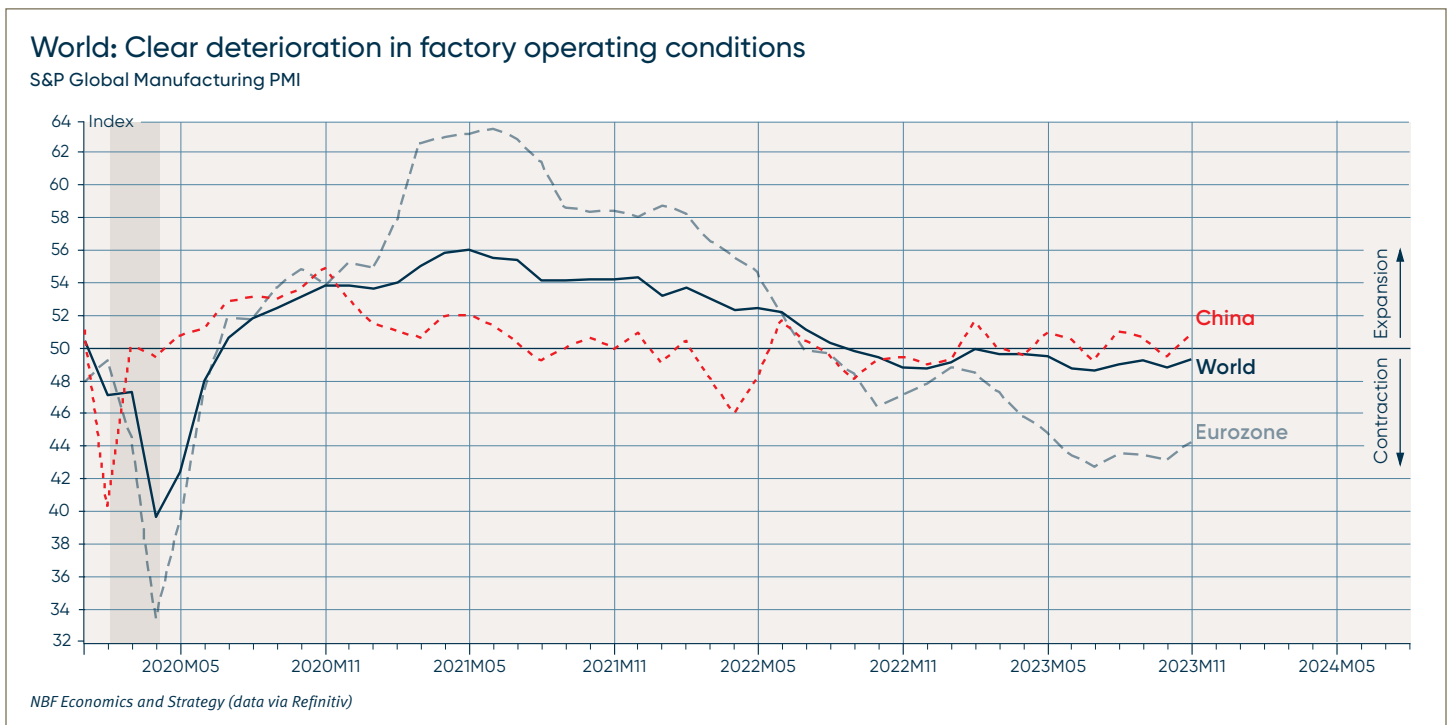


Investment Strategy

World

Global manufacturing activity has slowed markedly recently, which seems to be particularly affecting European factories. Unfortunately, this weakness is exacerbated by the central bank's efforts to bring inflation back to target. Taken together, these factors explain why GDP in the Eurozone contracted slightly in the third quarter. As a result, the common currency area has shown no growth over the past year. Historically, such weak 12-month growth figures have tended to herald a recession, and we expect the same to be true this time around. Meanwhile, the Chinese economy is also under pressure, with manufacturers feeling the effects of the slowdown in global

factory activity and property developers continuing to struggle. But the government finally seems determined to take the necessary measures to stimulate demand and prevent a deflationary spiral from taking hold. On 24 of October, the authorities approved the issue of an additional 1 trillion yuan (0.8% of GDP) of central government bonds to finance various stimulus initiatives. We remain cautious, however, despite these announcements, and believe that after narrowly reaching its 5% target this year, Chinese growth will weaken slightly in 2024. As for global growth, we expect it to reach 3.0% in 2023, before slowing to just 2.2% in 2024.



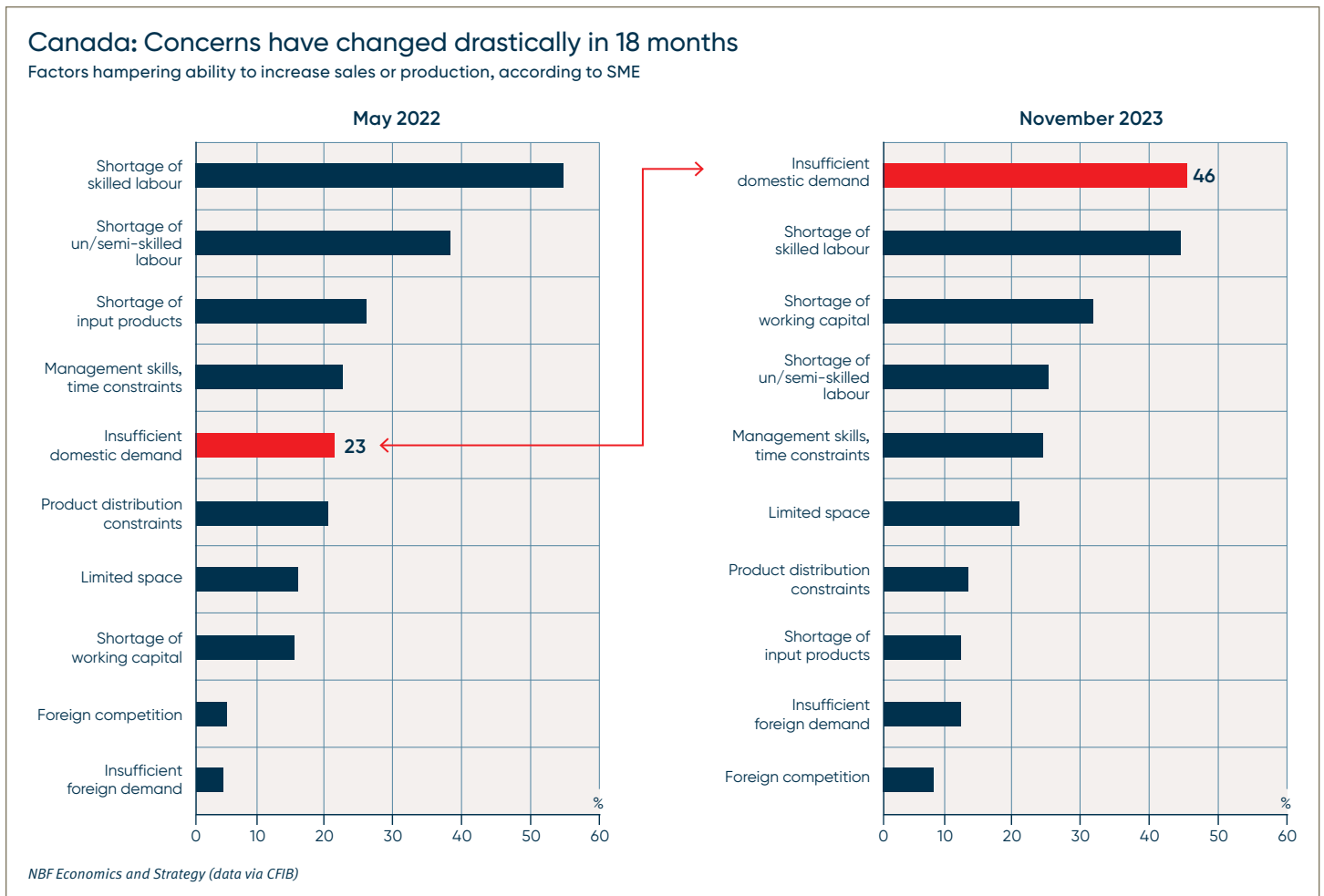
In this issue

- World1
- Canada2
- United States.....3
- Investment Strategy3
- Model Portfolios.....4
- Forecast.....4

Canada

In Canada, the rate hikes announced since the start of the recent tightening cycle are working their way through the economy. Third-quarter GDP data came in below the consensus of economists' expectations, showing an outright contraction notably due to a drop in private domestic demand. Although the momentum in GDP growth in September and October (preliminary) suggests that Canada could avoid a second consecutive contraction in Q4, what comes after may be less enviable. According to the Conference Board of Canada, consumer confidence in Q4 was even lower than during the pandemic and the 2008-2009 recession. This comes at a time when businesses are facing difficult decisions that could translate into a weak appetite for hiring and, in some cases, even job losses. Indeed, the latest SME confidence survey show sentiment

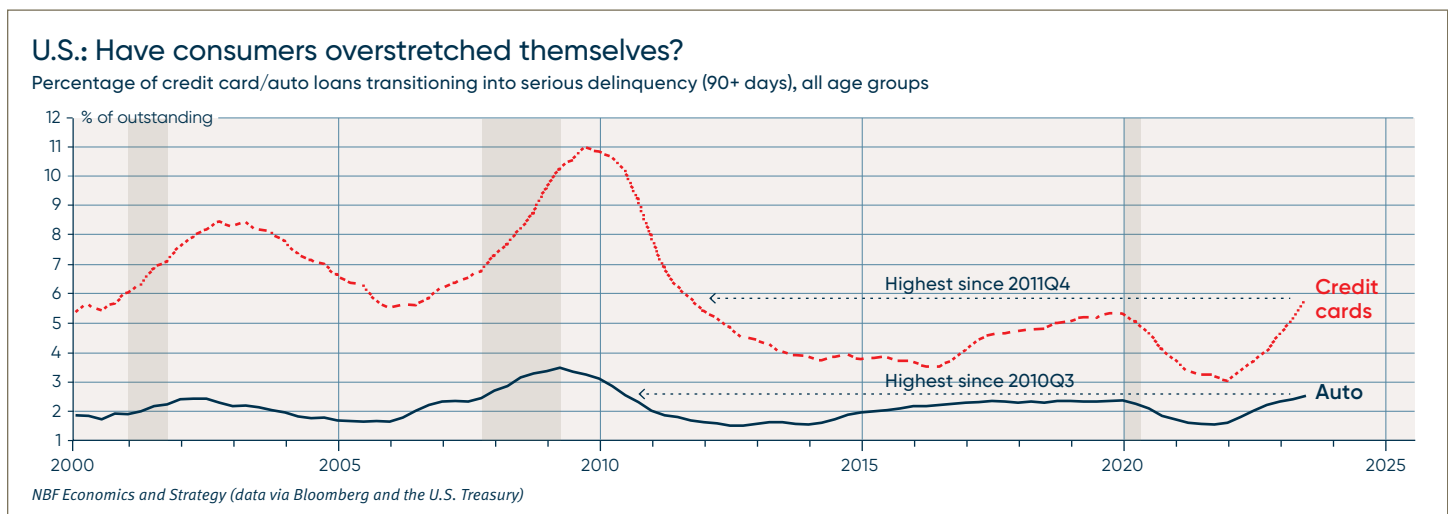
at recession levels in November, with a lack of domestic demand now the main concern for business owners (as opposed to a lack of skilled labour). This slowdown is corroborated by the labour market, where hiring is not keeping pace with population growth. As a result, the unemployment rate jumped to 5.8% in November, a sharp 8 tenths increase in only 7 months. There has only been one rise of this magnitude outside a Canadian recession since the early 1980s, when the tech bubble burst in 2001. This is all the more worrying given that the rate hikes announced so far have not had their full impact on the economy. In fact, according to our calculations, no less than 42% of the impact of the rate rises has not yet been felt on consumption. Against this backdrop, we expect the economy to contract 0.2% in 2024 and the Bank of Canada to start cutting its policy rate in the second quarter.



United States

In the U.S., third-quarter GDP data showed a 4.9% annualised expansion, the strongest in two years. While acknowledging the astonishing resilience of the U.S. economy in the face of aggressive monetary tightening by the Fed, we still have reservations about the sustainability of the current expansion. Our doubts stem largely from the fact that the rise in household spending in the third quarter was not accompanied by a corollary increase in disposable income, but was instead the result of a sharp fall in the savings rate. In a world of higher interest rates, this decline is counter-intuitive and suggests that consumers spend beyond their means. This hypothesis is confirmed by the most recent credit data, which showed a significant increase in the

percentage of consumer loans that fell into serious delinquency in the third quarter, even before the resumption of payments on student debt. A slowdown in consumer spending therefore seems inevitable, but its extent will depend on the resilience of the labour market. Although the labour market has remained relatively robust to date, SME's poor sales expectations do not suggest a hiring spree in the coming months. Unlike the Fed, we do not believe that a simple slowdown will allow supply and demand to rebalance. While the effect of past rate hikes will continue to be felt in the economy, we expect U.S. GDP to fall into contraction in the first half of 2024, a scenario that would translate into growth of just 0.8% next year.



Investment Strategy

Once again, the financial markets had an eventful quarter to end the year. Specifically, after starting October sharply lower, stocks and bonds rebounded spectacularly in November, as investor sentiment quickly shifted from pessimism to optimism. All in all, Q4 was therefore largely positive for both fixed income and equities, with a marked underperformance by emerging markets against a backdrop of a weak Chinese economy.

During the quarter, market enthusiasm was mainly based on the prospect of a return to accommodative monetary policies sooner than initially anticipated. In this particular context, economic "bad news" can sometimes be good news in the eyes of market participants, insofar as it increases the chances that central banks will cut rates sooner than expected. Thus, in addition to the marked slowdown in inflation, signs of a cooling in the labour market have been rather well received by investors, with several rate cuts now priced in for next year.

Looking ahead, while we can indeed expect a sustained slowdown in inflation to pave the way for rate cuts in 2024, it will be the trajectory of employment that will be decisive for the markets. In principle, a better balance between the supply and demand for workers that tempers inflation without leading to a significant rise in unemployment represents the most optimistic scenario, and this is essentially what has happened

to date. However, with the most restrictive monetary policy since the 1980s and now three "no-fault" recession signals now triggered, it seems unlikely that the situation will continue into 2024.

Against this backdrop, we deployed put our cash position to work at the beginning of December by increasing our overweight in bonds, which tend to perform well in times of economic slowdown. To a lesser extent, and in order to manage positioning risks, we also increased our allocation to equities, which nevertheless remain significantly underweight relative to our benchmark. Within equities, we have reduced the weighting of Canada in favor of an overweighting of the USA and the EAFE region, while emerging markets remain underweighted. From a macroeconomic point of view, the conditions for the U.S. stock market to outperform emerging markets are likely to remain in place for several months yet, with a strong dollar, slowing global growth and restrictive monetary policies. Finally, a more imminent and substantial deterioration in economic growth on our side of the border poses a greater threat to a cyclical market such as the Canadian stock market than to the EAFE region, whose largest country is Japan, renowned for the defensive nature of its currency.

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%	6.50%	-2.25%
	Fixed income (duration: 7.25 years) ¹	60% to 100%	70.0%	72.75%	1.75%
	Canadian equities	0% to 30%	8.0%	6.50%	-0.50%
	U.S. equities		8.0%	6.75%	0.50%
	Foreign equities		4.0%	2.50%	0.50%
	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%	-3.5%
	Fixed income (duration: 7.25 years) ¹	45% to 80%	55.0%	60.5%	2.5%
	Canadian equities	20% to 45%	14.0%	11.5%	-1.0%
	U.S. equities		14.0%	12.0%	1.0%
	Foreign equities		7.0%	4.5%	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%	6.5%	-3.0%
	Fixed income (duration: 7.25 years) ¹	30% to 65%	40.0%	46.0%	2.0%
	Canadian equities	30% to 65%	18.0%	15.5%	-1.0%
	U.S. equities		18.0%	16.0%	1.0%
	Foreign equities		9.0%	6.0%	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%	6.5%	-3.0%
	Fixed income (duration: 7.25 years) ¹	20% to 45%	30.0%	36.0%	2.0%
	Canadian equities	40% to 75%	22.0%	19.5%	-1.0%
	U.S. equities		22.0%	20.0%	1.0%
	Foreign equities		11.0%	8.0%	1.0%
	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.	Cash equivalents	0% to 30%	5.0%	6.5%	-3.0%
	Fixed income (duration: 7.25 years) ¹	0% to 30%	15.0%	21.75%	1.25%
	Canadian equities	55% to 100%	26.0%	23.00%	-1.00%
	U.S. equities		26.0%	24.25%	1.25%
	Foreign equities		13.0%	9.5%	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				December 2023		June 2024		December 2024			
	2021	2022	2023	2024	Canada	U.S.	Canada	U.S.	Canada	U.S.		
Gross Domestic Product %					Rate %							
Canada	5.3	3.8	1.1	-0.2	Short-term rates (T-bills, 91-day)							
U.S.	5.8	1.9	2.4	0.8	5.03	5.39	4.25	4.90	2.90	3.60		
Inflation %	10-year bond yields						3.13	3.93	3.20	4.10	2.65	3.55
Canada	3.4	6.8	3.9	2.4	30-year bond yields							
U.S.	4.7	8.0	4.2	2.8	2.95	4.04	3.10	4.15	2.70	3.70		
Canadian Dollar					US \$0.75		US \$0.69		US \$0.72			

National Bank Financial Wealth Management is a trademark used by National Bank Financial Inc. (NBF). NBF Inc. is an indirect wholly owned subsidiary of National Bank of Canada. National Bank of Canada is a public company listed on the Toronto Stock Exchange (TSX:NA). The particulars contained herein were obtained from sources we believe to be reliable, but are not guaranteed by us and may be incomplete. The opinions expressed are based upon our analysis and interpretation of these particulars and are not to be construed as a solicitation or offer to buy or sell the securities that may be mentioned herein. National Bank Financial may act as financial advisor, fiscal agent or underwriter for certain companies mentioned herein and may receive remuneration for its services. National Bank Financial and/or its officers, directors, representatives or associates may have a position in the securities mentioned herein and may make purchases and/or sales of these securities from time to time on the open market or otherwise. National Bank Financial is a member of the Canadian Investor Protection Fund (CIPF).

