March 2015
Building your financial future

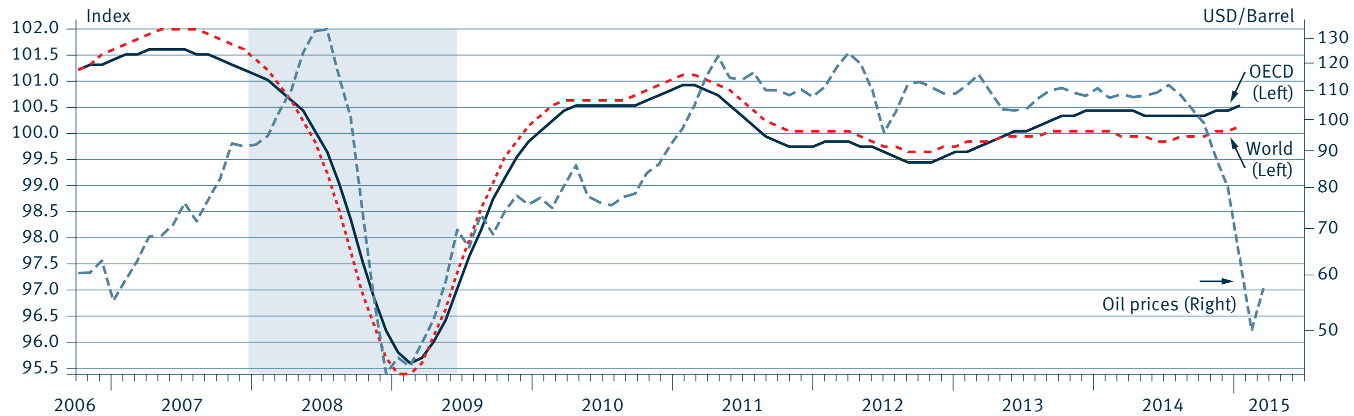
Investment Strategy

Global Economy

Growth in the OECD is becoming more widespread, with output on the rise not just in the U.S. and the U.K., but also in Japan and the Eurozone. Emerging economies which as a group grew over 4% last year should repeat the feat, thanks in part to the stimulus provided by the oil price slump. If Brent oil prices average $55/barrel this year, i.e. a 45% discount on last year's average price, large oil importers such as India and China will enjoy savings of over 1% of GDP. The oil price drop has already facilitated the implementation of reforms in India such as cuts to fuel subsidies, helping reinforce the country's fiscal outlook. Low inflation, stemming from declining oil prices, has also allowed the Reserve Bank of India to cut interest rates, thereby giving an extra boost to the economy. We expect India to challenge China as the world's fastest growing major economy this year. The ingredients are in place for global growth to pick up to 3.5% this year.

World: Very unusual dynamic

OECD leading economic indicators and oil prices (Brent)



NBF Economics and Strategy (data from OECD and Datastream)

In this issue

NATIONAL BANK FINANCIAL
WEALTH MANAGEMENT

United States

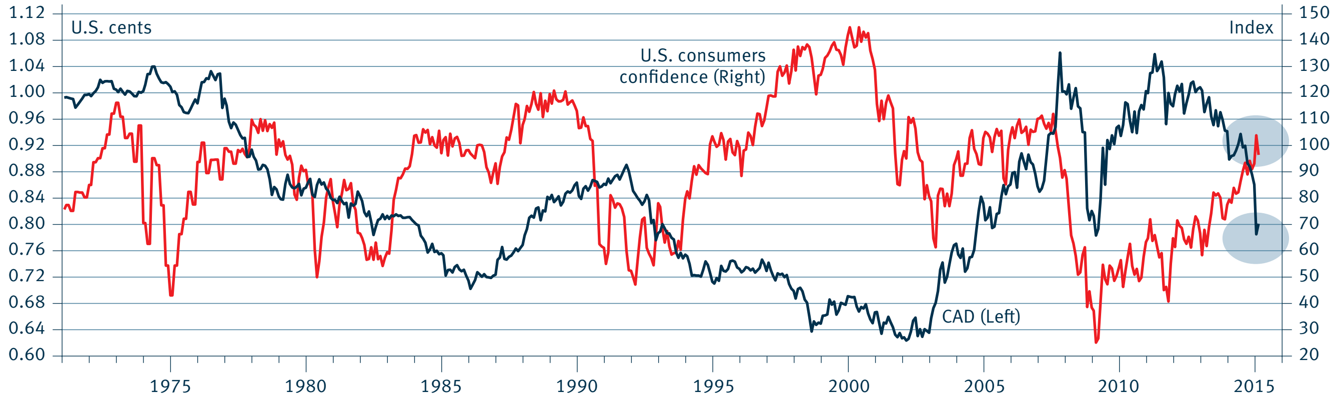
The new year started with a bang on the employment front with not just a consensus-topping January increase in non farm payrolls, but also upward revisions for the prior months. The U.S. ended up creating 3.1 million jobs last year (3 million in the private sector alone), the best performance since 1999. While there are still pockets of weakness, e.g. still large number of involuntary part-timers and low wage inflation, it's hard not to appreciate the progress made in recent years. Private sector employment has been so strong that its share of total employment is now 84.5%, the highest since 1960. Also encouraging is the fact that job gains have been widespread based on the diffusion index which is at multi-year highs. The solid labour market, coupled with lower gasoline prices, is not surprisingly giving a lift to consumer confidence and actual spending – the last quarter of 2014 saw consumption grow at the fastest pace since 2006. With pump prices falling further, and a savings rate that is at its highest since mid-2014, expect consumers to remain in a spending mood this year. We continue to expect U.S. GDP growth of 3.3% this year. Such above-potential growth does not automatically call for tightening of monetary policy by the Fed. The trade-weighted U.S. dollar's more than 12% appreciation since July, the biggest eight-month gain since the global recession, may be a consideration for the Fed as it ponders whether or not to further delay rate hikes.

Canada

The Bank of Canada began the year with a bang, moving its policy rate for the first time in four years. Unexpectedly, the move was a cut – 25 basis points, to 0.75%. The BoC's argument was the risk to growth posed by slumping oil prices: "The oil price shock increases both downside risks to the inflation profile and financial stability risks." Consequently the central bank lowered its inflation forecasts, projecting that neither core nor headline inflation would return to 2% before late 2016. Fortunately, exports will provide some offset to plunging energy prices, a development that should be welcome in Central Canada's manufacturing sector. The latter is now enjoying a tailwind brought by strengthening U.S. demand and a much more competitive Canadian dollar which has lost more than 20% of its value against the U.S. dollar in the last two years. So, expect trade to once again be the major driver of Canadian growth this year. We continue to call for GDP growth of 2% this year, a touch above potential. But considering how growth, and hence employment, will be dependent on trade, and that inflation is set to remain below target for a while, the Bank of Canada will maintain its loose stance on monetary policy for the foreseeable future.

Canada: Favorable environment for exports

Canadian dollar and U.S. consumers confidence index



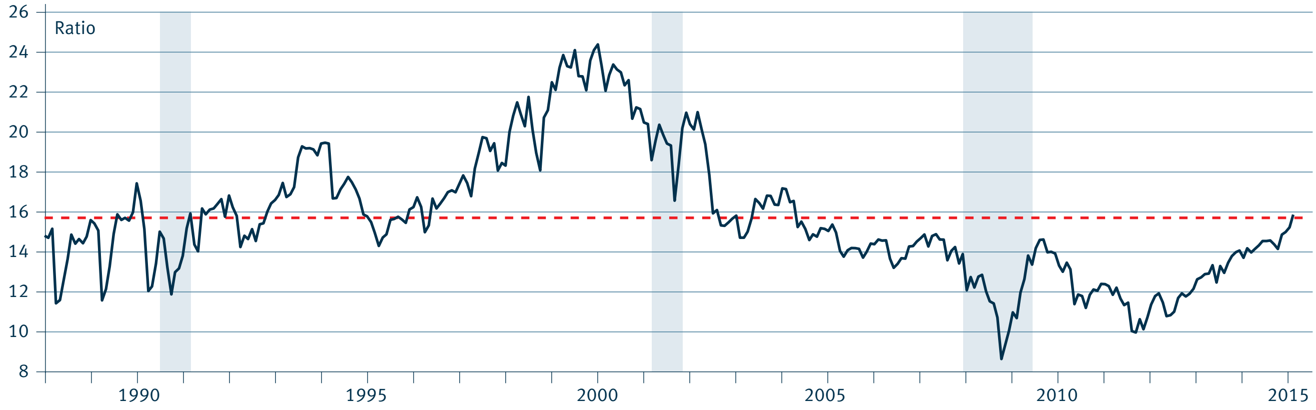
NBF Economics and Strategy (data via Datastream)

Financial Markets

Though whipsawed for much of January, global equity markets have been resilient. In February, the MSCI AC World index actually hit a new record high with most regions showing renewed strength. Despite geopolitical uncertainty, the odds continue to favour economic expansion in the coming quarters. Equity valuation as measured by the forward PE ratio has moved slightly above its historical average, a development that is likely to endure as low global inflation allows many central banks to increase liquidity in order to maintain an environment of very low interest rates.

Global stock market resilience

Price to 12-month forward earnings of the MSCI AC World index



NBF Economics and Strategy (data via Datastream)

Investment Strategy

With strong ECB easing measures now in place and less geopolitical uncertainty after deals in Greece and Russia, risk assets remain well positioned to offer the best expected returns on a short and longer-term horizon. We continue to favour USD denominated foreign equities to their Canadian counterparts. True, U.S. equity gains have been phenomenal in recent years, and even more so once expressed in Canadian dollars, but we remain confident that the general trend is still unfavourable to resource-heavy markets and their currencies.

In fixed income, we maintain our underweight position as there seems to be a reversal in bond yields worldwide. While the impact of the ECB's bond purchase program on yields remains to be seen, past episodes of quantitative easing (QE) phases in the U.S. have always coincided with a rebound in bond yields, suggesting that once central banks go forward with easing measures, the worst of the situation is already behind us. Also, on February 24, Fed chair Janet Yellen testified to Congress and gave indications that there would be no movement in the Fed Funds rate until mid-June at the earliest, but the next step is clearly a rate hike, which would exert upward pressure on longer-term bond yields.

That being said, we do not anticipate a significant pick-up in yields in the short-term, as the impact of lower energy prices will continue to be felt on inflation, at least until this summer. Moreover, the recent price stabilization may prove to be temporary in nature as crude inventories continue to build in North America. If production continues at the current pace, we can expect some weakness in prices and increased volatility.

MODEL PORTFOLIOS

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 years)[1]	60% to 100%	70.0%	66.0%	0.0%
	Canadian equities	0% to 30%	7.5%	9.0%	0.5%
	US equities		7.5%	11.0%	-0.5%
	Foreign equities		5.0%	6.0%	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 years)[1]	45% to 80%	55.0%	51.0%	0.0%
	Canadian equities	20% to 45%	14.0%	15.5%	0.0%
	US equities		14.0%	17.5%	0.0%
	Foreign equities		7.0%	8.0%	0.0%
	Alternative investments[2]	0% to 15%	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%	1.5%	0.5%
	Fixed-income (duration: 5 years)[1]	30% to 65%	40.0%	36.0%	0.0%
	Canadian equities	30% to 65%	17.5%	19.0%	0.0%
	US equities		17.5%	22.0%	-0.5%
	Foreign equities		10.0%	11.5%	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 years)[1]	25% to 45%	35.0%	28.0%	0.0%
	Canadian equities	40% to 75%	20.0%	21.5%	0.5%
	US equities		20.0%	24.5%	-0.5%
	Foreign equities		15.0%	16.0%	0.0%
	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%	0.0%	0.0%	0.0%
	Fixed-income (duration: 5 years)[1]	0% to 30%	20.0%	11.5%	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%	21.0%	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

	2013	2014	Forecast 2015	Forecast 2016
Gross Domestic Product %				
Canada	2.0	2.4	2.0	2.0
US	2.2	2.4	3.3	2.7
Inflation %				
Canada	0.9	1.9	0.5	2.3
US	1.5	1.6	0.4	2.3

	March 2015 Canada	March 2015 US	December 2015 Canada	December 2015 US	December 2016 Canada	December 2016 US
Rate %						
Short-term rates (T-Bills, 91-Day)	0.59	0.03	0.46	0.69	0.96	1.48
10-year bond yields	1.44	2.16	1.72	2.34	2.13	2.62
30-year bond yields	2.07	2.75	2.28	2.83	2.58	3.04
Canadian dollar	**US $0.80**		**US $0.79**		**US $0.81**	

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