meritage PORTFOLIOS®

WINTER 2019

QUARTERLY NEWSLETTER

NATIONAL BANK INVESTMENTS

OUR INVESTMENT BELIEFS, AT YOUR SERVICE

National Bank Investments' core investment beliefs are our guiding principles in delivering the best strategies possible for our solutions, such as Meritage Portfolios. These four guiding principles inspire our mission and our vision.

1 WE BELIEVE investment decisions should be exclusively evidence-based

In a world of endless information that flows rapidly, investment decisions must be based on sound facts.

We identify material information that allows us to offer you a fair risk-return payoff, and carry out an extensive study of historical business cycles.

Through our robust process of due diligence, we model our analyses to remain truly rational.

2 WE BELIEVE value can be added through active management

We manage a dynamic mix of active and passive solutions.

Active versus passive is not a debate, but a competitive advantage of our open architecture.

This approach allows us to select key portfolio managers in each asset class to actively manage different risk factors for greater potential returns to aim for superior diversification.

3 WE BELIEVE in budgeting risks

The best way to support our goal of generating long-term results is by minimizing drawdowns.

We care deeply about risk management, and carefully budget risk in our Meritage Portfolios using optimal diversification of asset classes, sectors and management styles.

4 WE BELIEVE in a focused investment strategy

Following this investment process is paramount and fundamental to Meritage Portfolios' success.

It adds tremendous value and brings the best investment results for you.

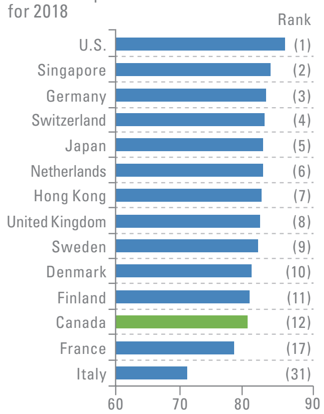
For more information on our Meritage Portfolios, contact your advisor.

OUTLOOK*

CANADA

The Canadian economy seems well on track to grow about 2% in 2018 and 2019. Reduced trade-related uncertainties courtesy of the United States-Mexico-Canada Agreement (USMCA), expectations of accelerating wages amidst labour shortages, the stabilization of the housing market and generally positive signals from businesses have all made the Bank of Canada more confident about the economic outlook. Because of this favourable environment, three new interest rate hikes could be enacted by the end of 2019.

Canada: Slipping down the competitiveness rankings
Global competitiveness index for 2018



Source: National Bank Financial (data from World Economic Forum)

The labour market is so hot that employers are finding it increasingly difficult to find qualified workers. Additionally, a large proportion of Canadian businesses expect a growth acceleration in sales and exports during the year.

That being said, not all is rosy for Canada. According to the World Economic Forum, the competitiveness gap with the U.S. widened further in 2018, and Canada dropped down two spots compared to the 2017 world rankings.

UNITED STATES

The growth of the U.S. gross domestic product (GDP) and, therefore, the rate of interest rate hikes by the U.S. Federal Reserve (Fed) could slow in 2019.

A less competitive U.S. dollar
Real effective USD exchange rate

Source: National Bank Financial (data via Bank of International Settlements)

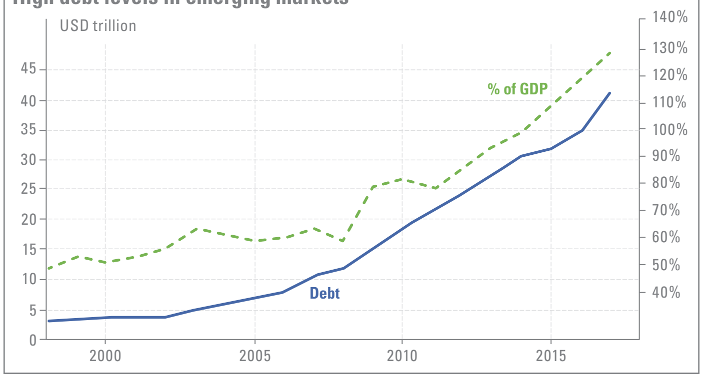
Could these rate changes cause the U.S. economy to plummet? Probably not. The Fed could opt to exert restraint and not disrupt the credit markets which, despite earlier interest rate hikes, continue to flourish.

In addition, consumer spending may not decline in 2019, which bodes well for economic growth. In this context, U.S. real GDP growth could remain above 2% in 2019.

AROUND THE GLOBE

Global growth may not exceed 3.5% in 2019. Investor concerns are seemingly not isolated to emerging economies anymore. For example, the escalation of the trade war between the United States and China could have ripple effects across global supply chains, therefore hurting trade volumes.

High debt levels in emerging markets



Total non-financial sector debt in emerging markets
Source: National Bank Financial (IMF data)

Europe's old problems are resurfacing, including uncertainties to the economic outlook courtesy of Brexit and Italy's populist policies, which could widen the Italian deficit. Another looming threat for the eurozone is an economic slowdown in emerging markets. Europe's already-fragile banking sector could potentially see related losses. Spanish banks, for instance, have outstanding claims on emerging markets.

In China, the hike in oil prices explains part of the deceleration in the world's second largest economy. But don't underestimate the power of fiscal and monetary stimulus, especially in a centrally planned economy like China. So while China's GDP growth will continue to moderate towards more sustainable levels, we continue to expect it to remain around 6% in 2019 and 2020.

* While this information was accurate at the time of writing, it may no longer be exact at the time of publication.

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