



Unified Q1 2024 Review



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 NATIONAL BANK
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WEALTH MANAGEMENT

Looking back on the 1st quarter of 2024



The upbeat sentiment that marked the end of last year continued in the markets in the first quarter of 2024, with the S&P 500 surpassing its record high set in January 2022, thanks in part to the outperformance of tech giants at the forefront of advances in artificial intelligence.

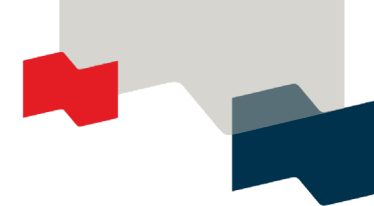
Meanwhile, bonds continued to lag, as investors no longer expect the same number of rate cuts as they did three months ago, while precious metal prices appreciated in the face of a still uncertain geopolitical context.

Although there has been good news since the start of the year, the precise state of the economy is difficult to assess as contradictory signals persist. For example, while manufacturing activity appears to be picking up, consumers appear less prone to spend, as evidenced by slowing retail sales growth and rising credit card delinquency rates. Lastly, the fog is still thick on the inflation front, with various price indices surprising both on the upside and the downside in Canada and the U.S.

Our base scenario that looks forward one year, continues to expect a gradual slowdown in inflation, accompanied by some turbulence within the economy. In this respect, we will keep a close eye on consumer spending and the resilience of the labour market, both of which could face challenges later this year.

Under the circumstances, in the quarter, we added conservatively to equities within the Tactical Asset Allocation (TAA) within your accounts (if applicable), increasing your total equity holdings by a small amount. In the TAA, equities now sit in a neutral stance, reflecting a continued balance of seeking gains while respecting near-term concerns.

Quarterly Market Performance



Market Total Returns

Asset Classes	March	Q1	12M
Cash (S&P Canada T-bill)	0.4%	1.2%	4.8%
Bonds (Canada Broad Universe)	0.4%	-1.3%	1.9%
Federal Government	0.5%	-1.1%	0.8%
Corporate	0.6%	0.1%	5.7%
Corporate BBB	0.7%	0.5%	6.4%
S&P/TSX Preferred shares	3.5%	9.6%	13.5%
U.S. Corporate (US\$)	1.2%	-0.1%	4.7%
U.S. High Yield (US\$)	1.2%	1.5%	11.0%
World Equities (MSCI ACWI US\$)	3.2%	8.3%	23.8%
S&P/TSX	4.1%	6.6%	14.0%
S&P/TSX Small Caps	7.5%	7.9%	8.2%
S&P 500 (US\$)	3.2%	10.6%	29.9%
Russell 2000 (US\$)	3.6%	5.2%	19.7%
MSCI EAFE (US\$)	3.4%	5.9%	15.9%
MSCI Emerging Markets (US\$)	2.5%	2.4%	8.6%
Commodities (GSCI US\$)	4.7%	10.4%	11.1%
WTI Oil (US\$/barrel)	6.0%	16.8%	11.0%
Gold (US\$/oz)	8.3%	7.2%	12.0%
Copper (US\$/tonne)	4.3%	3.6%	-2.6%
Forex (US\$ Index DXY)	0.4%	3.2%	2.0%
USD per EUR	-0.2%	-2.2%	-0.6%
JPY per USD	0.9%	7.3%	13.9%
CAD per USD	-0.3%	2.2%	0.2%

CIO Office (data via Refinitiv, as of 2024-03-29)

Market Total Returns (C\$)

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Federal Government	0.5%	-1.1%	0.8%
Corporate	0.6%	0.1%	5.7%
Corporate BBB	0.7%	0.5%	6.4%
S&P/TSX Preferred shares	3.5%	9.6%	13.5%
U.S. Corporate	0.9%	2.1%	4.9%
U.S. High Yield	0.9%	3.7%	11.2%
World Equities (MSCI ACWI)	2.9%	10.7%	24.0%
S&P/TSX	4.1%	6.6%	14.0%
S&P/TSX Small Caps	7.5%	7.9%	8.2%
S&P 500	2.9%	13.0%	30.1%
Russell 2000	3.3%	7.5%	19.9%
MSCI EAFE	3.1%	8.3%	16.1%
MSCI Emerging Markets	2.2%	4.7%	8.8%
Commodities (GSCI)	4.4%	12.8%	11.3%
WTI Oil (C\$/barrel)	5.7%	19.4%	11.2%
Gold (C\$/oz)	7.9%	9.6%	12.2%
Copper (C\$/tonne)	4.0%	5.9%	-2.5%
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CAD per USD	-0.3%	2.2%	0.2%

CIO Office (data via Refinitiv, as of 2024-03-29)

Transactions during the 1st quarter of 2024



Tactical Asset Allocation (TAA) – February and March

The prospect of multiple rate cuts by the U.S. Federal reserve in 2024 combined with the potential for productivity gains driven by adoption of artificial intelligence fueled a continued rally in global equities through the 1st quarter of 2024.

During the quarter, our quantitative models indicated that continued economic and market strength were likely to persist in the near term, and therefore we conservatively increased your holdings of stocks two times in the quarter to have you benefit from the rally in the equity markets.

The equity increases were split between CDN, US, and EAFE (Europe, Asia, and Far East) with the US weighting receiving slight favour.

Your TAA allocation is now in a neutral stance meaning that it remains conservatively allocated to reflect the continued mixed economic signals that may in turn have an impact on markets.

Fixed Income | Index plus



Your Fixed Income investments are diversified, selected to produce steady income and manage fluctuations in your portfolio. Cost is managed to ensure you retain as much of your income as possible.

Target Allocations

Vanguard Canadian Aggregate Bond	39.4%
iShares High Quality Canadian Bond	20.2%
PIMCO Monthly Income ETF	15.2%
Invesco Long Term Government Bond Index ETF	14.7%
Horizons Active Corporate Bond	10.4%

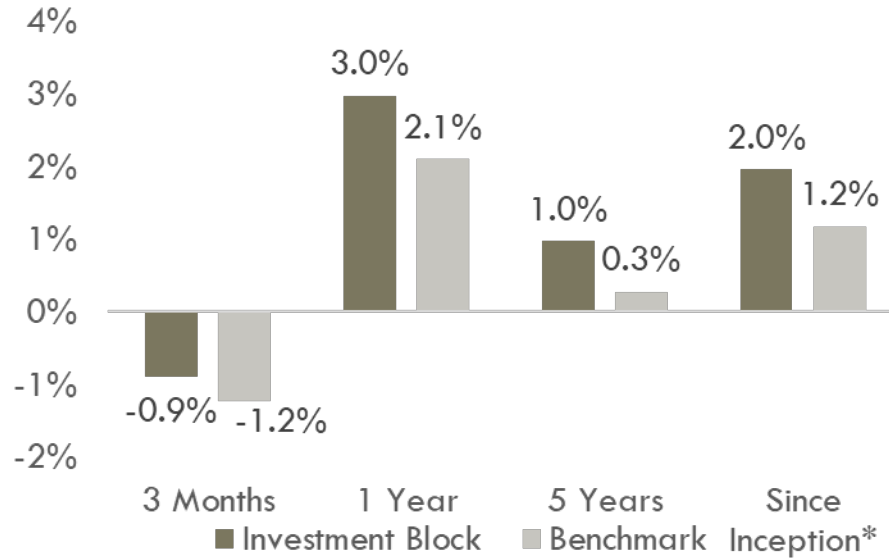
Statistics

Yield to Maturity	4.34%
Duration (years)	7.47

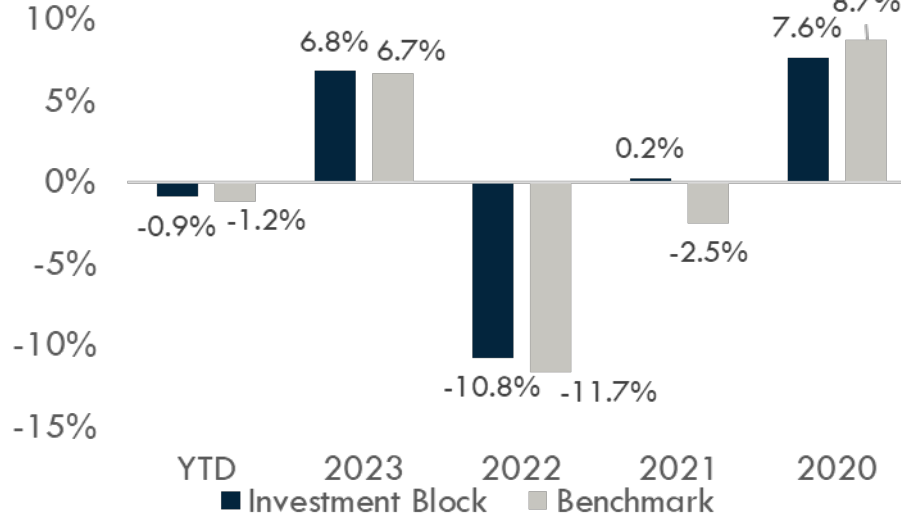
Benchmark

FTSE Canada Universe Bond	
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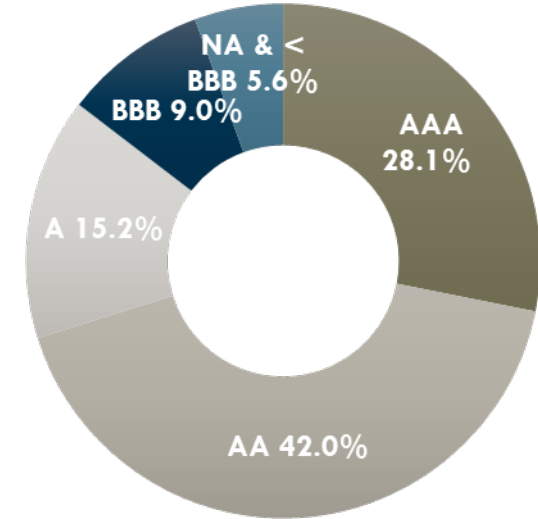
Annualized Performance



Calendar Year Performance



Credit Rating



Comments

The duration of your fixed income is in line with the benchmark. Your portfolio is therefore positioned for good relative performance in a rising or falling interest rate environment.

Overweight in corporate bonds and underweight in government bonds, allowing you to generate a higher-than-average level of income.

The integration of global bonds (PIMCO ETF) allows you to increase your portfolio's income and offers the opportunity to outperform Canadian bonds.

Your Canadian equity investments are designed to achieve returns comparable to investing in a broad-base of Canadian corporations (an index), with core holdings in large, dividend paying companies. Cost control is a focus to ensure you maximize your earnings.

Target Allocations

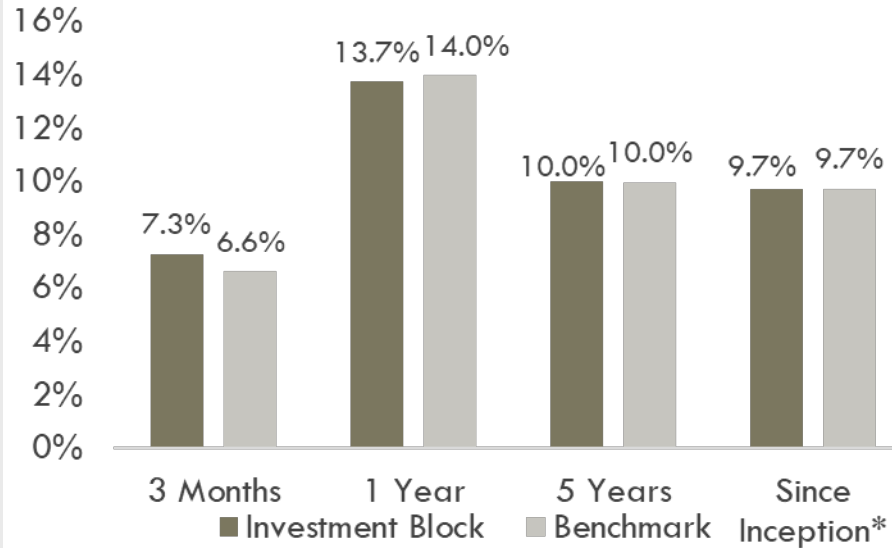
BMO S&P/TSX Composite Index	86.4%
Vanguard FTSE Canadian High Dividend	13.6%

Benchmark

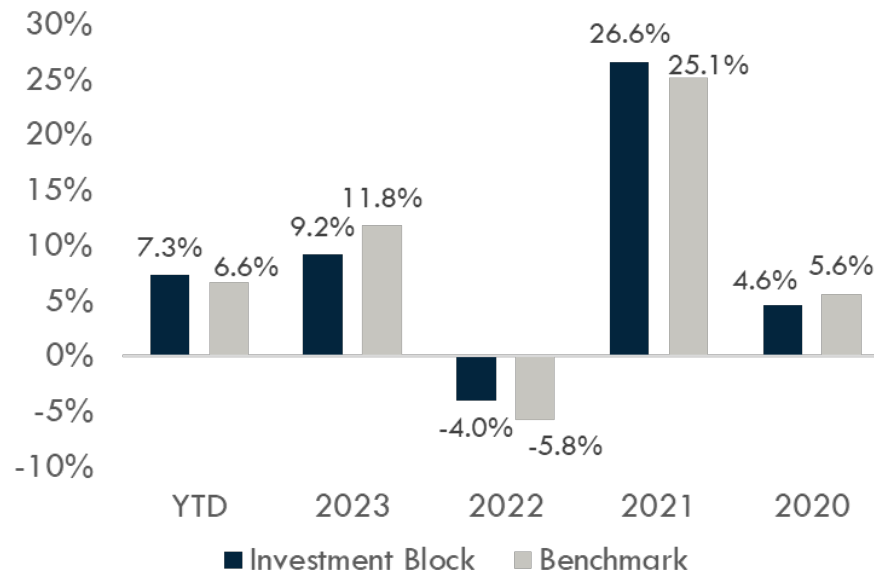
S&P / TSX Composite TR

Canadian Equity | Index plus

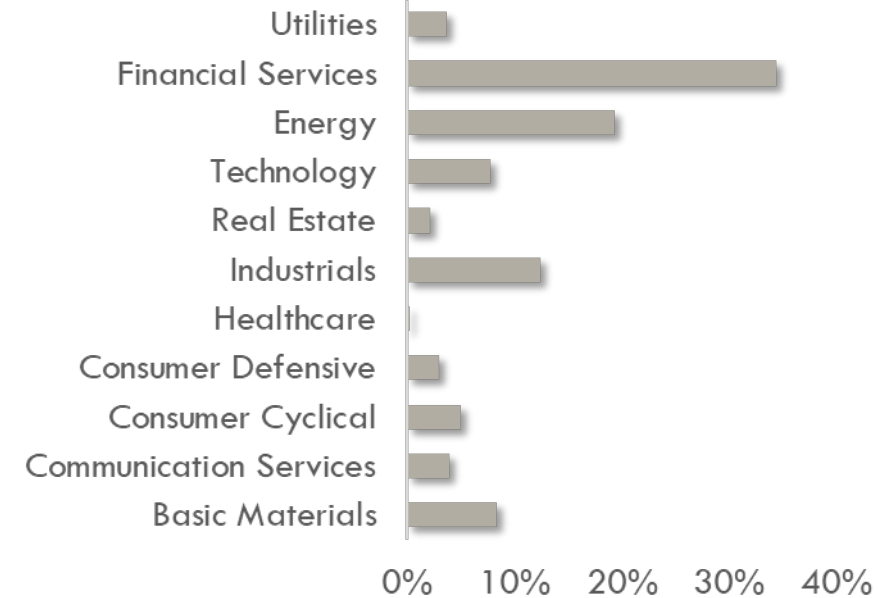
Annualized Performance



Calendar Year Performance



Sector Allocation



Comments

The BMO S&P/TSX Index ETF is a low-cost way to invest in the entire Canadian market.

The Vanguard ETF is intended to generate additional income from your Canadian equity investments

Canadian equities are attractive because of Canada's stable financial and political sector and investor-friendly governance standards.

Global Equity | Blend



Your Global equity investments will be divided between managers that identify focused investment opportunities and those that provide broad based access to a variety of countries and industries. You will benefit from global growth while controlling cost.

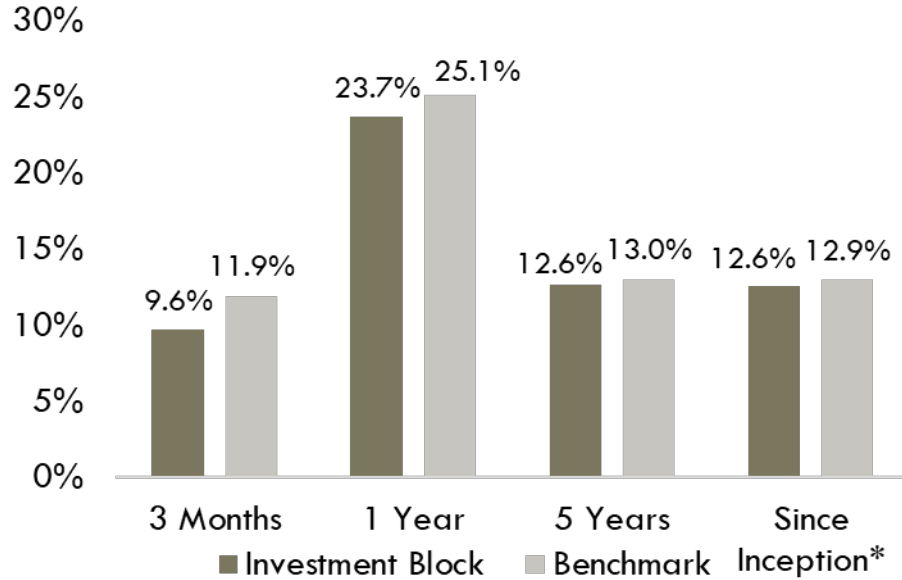
Target Allocations

NBI US High Conviction Equity (Pinestone)	36.0%
Vanguard S&P 500	34.2%
iShares MSCI EAFE IMI	18.5%
Fidelity International High Quality Index ETF	11.4%

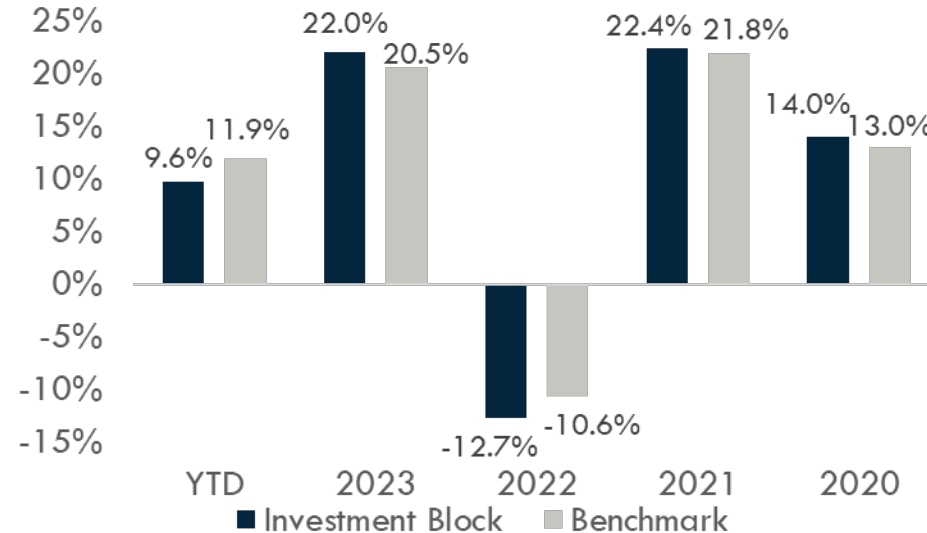
Benchmark

NBF Global Equity Benchmark

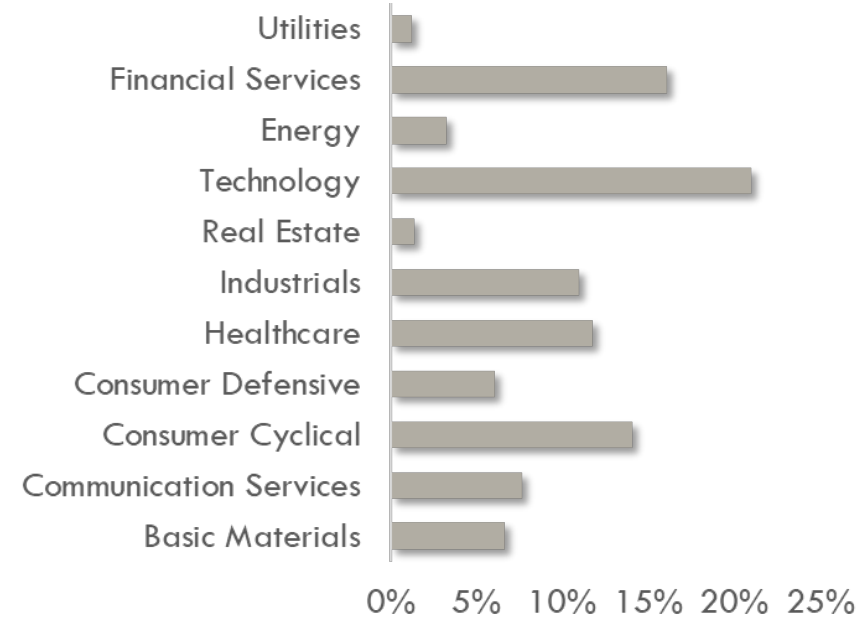
Annualized Performance



Calendar Year Performance



Sector Allocation

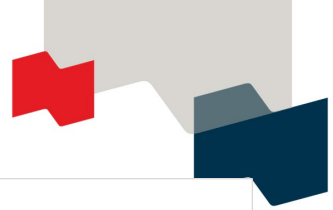


Comments

Your global equity investments give you exposure to the growth of the U.S. economy, recognized for its innovation and technological leadership, as well as an investor-friendly regulatory framework. You also gain exposure to international equities for added diversification.

Your global equity managers favour quality stocks generating stable earnings and cash flows, making them less vulnerable to market downturns. These companies also have sustainable competitive advantages, such as strong brand recognition, intellectual property or market dominance.

Alternatives | Options



Your holdings in Alternatives are non-traditional strategies designed to reduce fluctuation within your portfolio and to generate income.

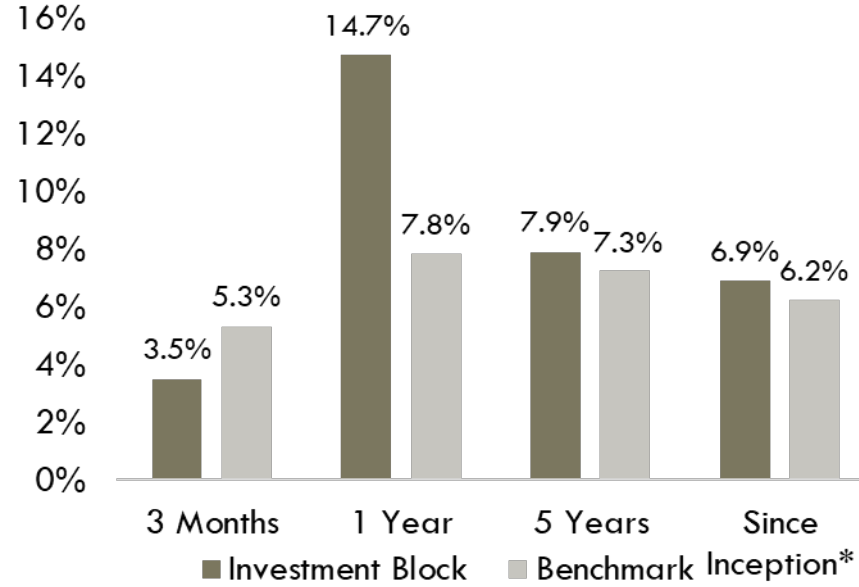
Target Allocations

Dynamic Premium Yield	54.9%
Purpose Premium Yield ETF	45.1%

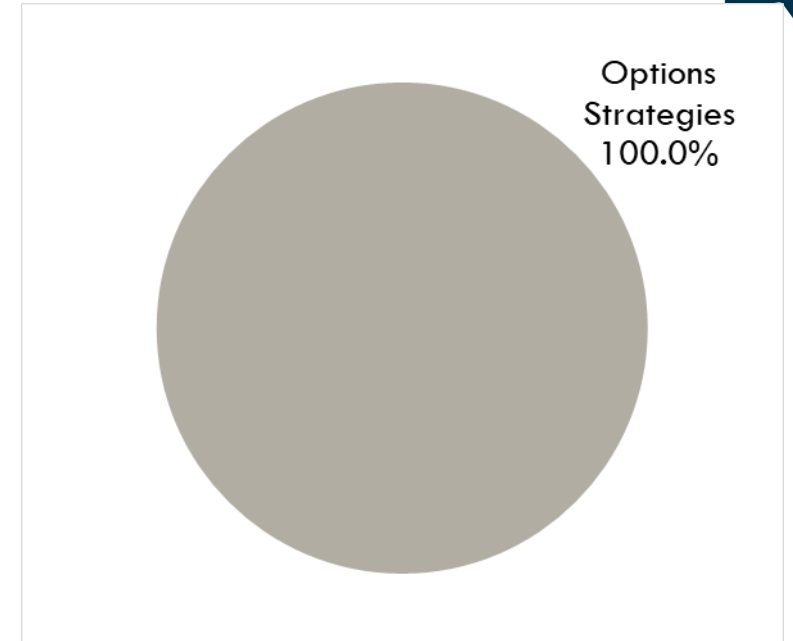
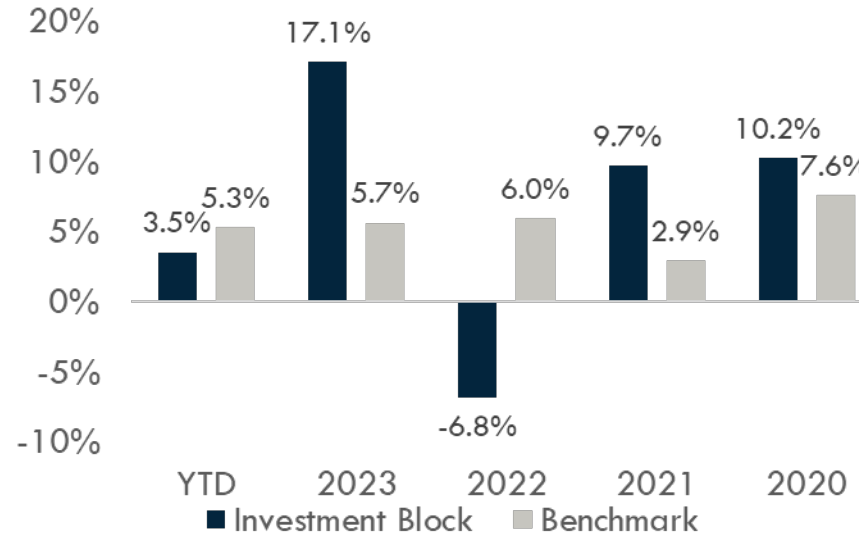
Benchmark

NBF Alternative Benchmark

Annualized Performance



Calendar Year Performance



Comments

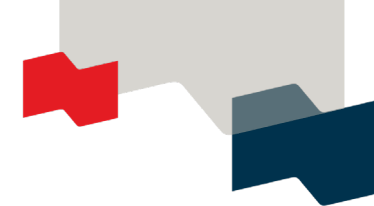
Options are agreements that rise and fall based upon the movement of underlying investments such as stocks. Many but not all of the investments made by these managers will be investments in companies that the manager then earns income by selling options known as covered calls. These strategies are expected to produce income and help manage portfolio fluctuations.

Perspective

Being well informed and remaining objective is essential to maximize your investment success.



Are Rate Hikes Bad for Stocks?



MYTH

Stocks generally perform poorly when central banks hike their policy rate.

REALITY

Each rate hike cycle has its own set of circumstances that often bring additional volatility to markets. However, what normally prompts central banks to raise their policy rate is usually an economy that is showing strength and is expected to continue to do so; a typically favorable environment for stocks.

Case in point: since 1996, the yearly total return of the S&P/TSX averages 6.2% when the Bank of Canada hikes the overnight rate at least once, lower than the 9.3% average of all years over that same time period but still well into positive territory. Similar findings in the United States, where the average yearly total return of the S&P 500 is 8.1% when the Federal Reserve hikes its policy rate at least once.

To be clear, these historical trends are no guarantee for any specific year, as evidenced by the year 2022, whose unique circumstances led to substantial setbacks for stocks. Nevertheless, **over the long run, odds remain in favor of patient investors, regardless of the ups and downs of policy rates.**

Markets and rate hikes (data since 1996)

Canada

Year	# of rate hikes*	Total return (S&P/TSX)
1997	5	15.0%
1998	3	-1.6%
2000	4	7.4%
2002	2	-12.4%
2005	3	24.1%
2006	4	17.3%
2010	3	17.6%
2017	2	9.1%
2018	3	-8.9%
2022	16	-5.8%
Average (rate hikes)		6.2%
Average (all years)		9.3%

United States

Year	# of rate hikes*	Total return (S&P 500)
1997	1	33.4%
1999	3	21.0%
2000	4	-9.1%
2004	5	10.9%
2005	8	4.9%
2006	4	15.8%
2015	1	1.4%
2016	1	12.0%
2017	3	21.8%
2018	4	-4.4%
2022	17	-18.1%
Average (rate hikes)		8.1%
Average (all years)		10.7%

Market Timing in the Long Run

MYTH

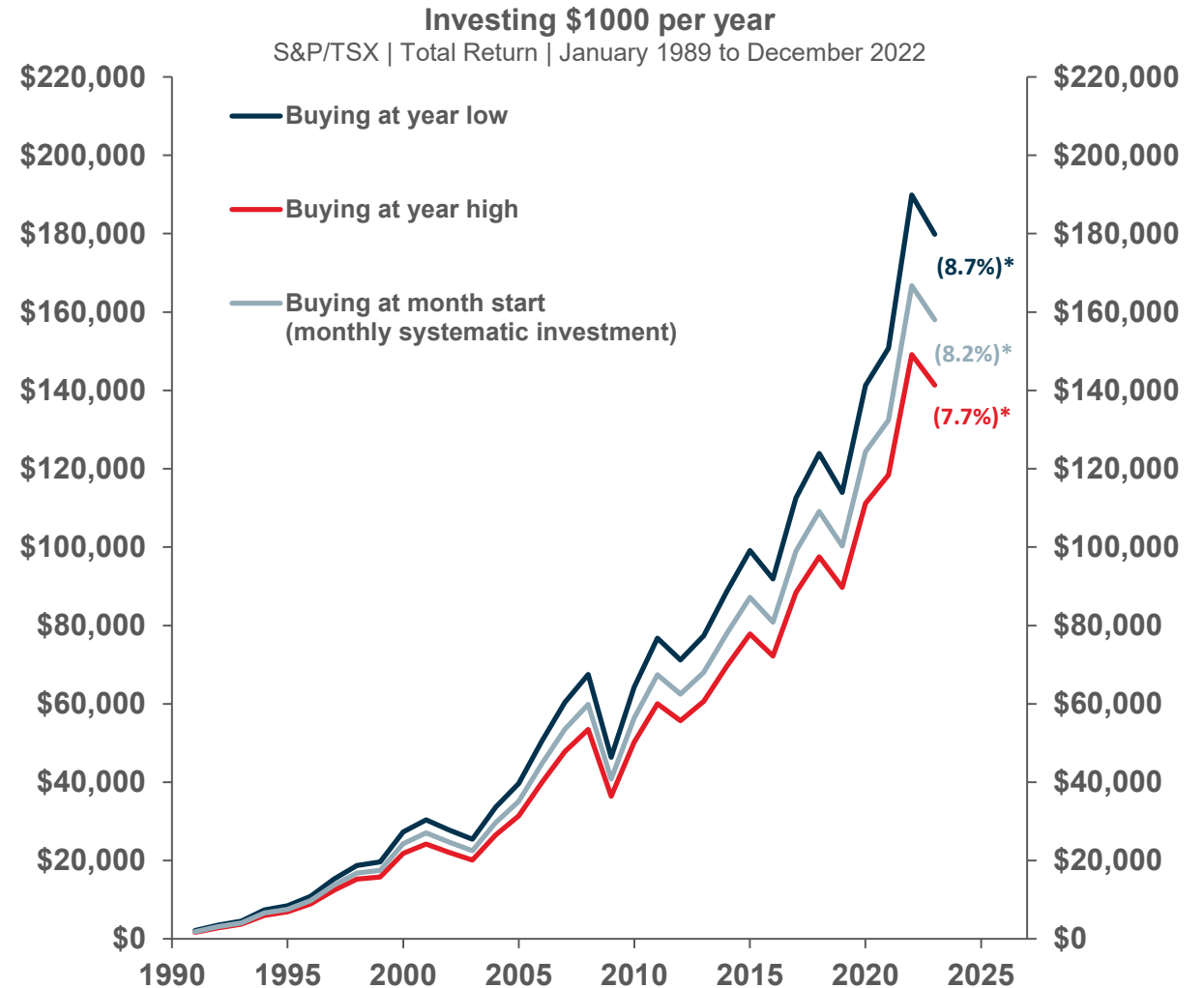
The timing of your investment is of utmost importance for your long-term returns.

REALITY

The timing of your annual investment will make a difference in the long run, but it is far from being the critical factor many seem to believe.

Case in point: consider an investor blessed with the power of perfect market timing (blue line) compared to another investor cursed with systematically picking the worst possible day to invest each year, over 30 years (red line). In the end, the market timing champion would have outperformed the most unfortunate of all investors by a mild 1% / year. If we take the more realistic example of an investor saving systematically at the beginning of each month, this annual outperformance shrinks below 1%.

How is such a small gap possible? Simply because in the long run, the first year's return is superfluous. **What truly matters is the frequency of savings and passage of time, not market timing.**



Reasons to Sell?

MYTH

Selling in times of heightened uncertainty can protect investments from heavy losses.

REALITY

Selling in times of heightened uncertainty is generally the best way to ensure heavy losses, as it often rhymes with selling low and missing the rebound.

More importantly, one should keep in mind that **the only certainty is that there will always be uncertainty, as it is the price to pay for capital appreciation in the long run.**

And – need we add – it isn't in the media's best interest to report the latest news with nuance and historical perspective; better to let fear and pessimism easily set in. However, **the chart on the right should act as a reminder that letting emotions take over is a good recipe for short-term gain, but long-term pain.**



Average Return?

MYTH

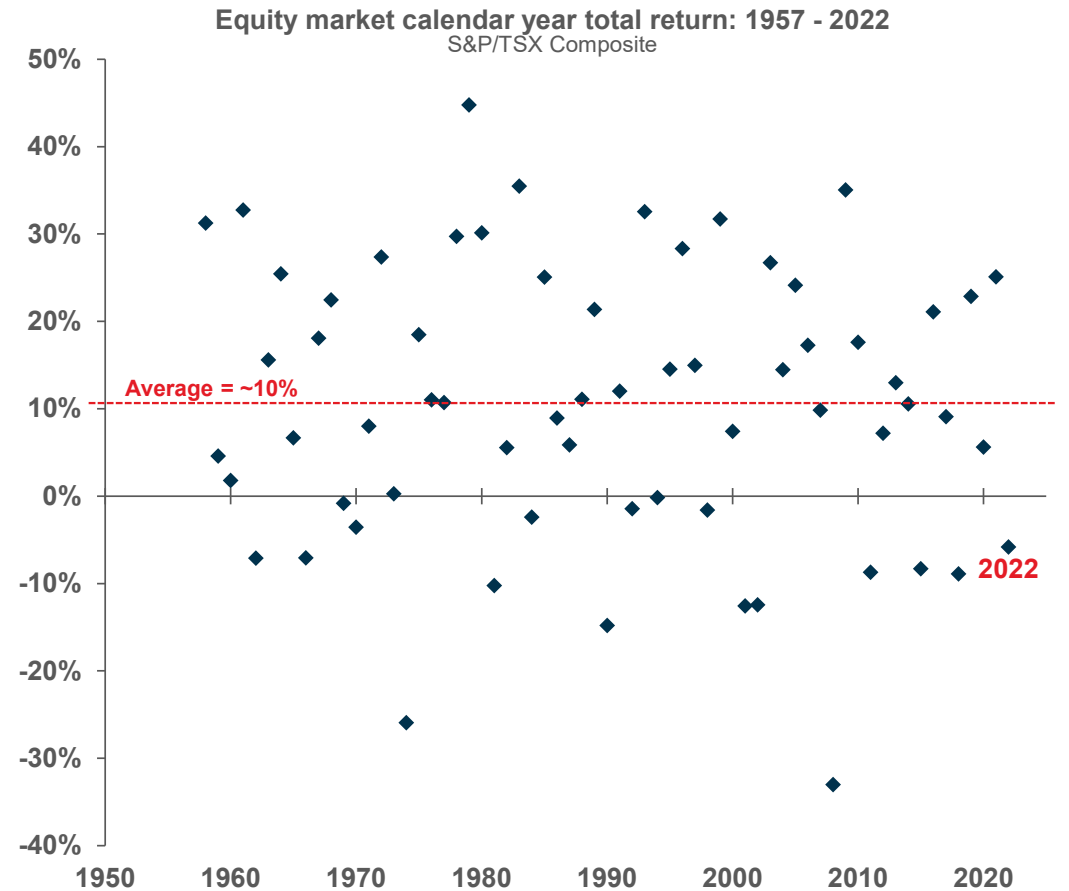
Since the long-term historical average annual return on the stock market is ~10%, investors should expect to see calendar-year returns near 10%.

REALITY

Quite the contrary, it is likely that investors will only rarely see a calendar year where equity returns are close to their long-term historical averages. Case in point: since 1957, only 8 years out of 63 have seen the Canadian stock market generate performance near average (+/- 2%).

One likely reason for this myth is the common misconception that “average” is synonymous with “typical.” However, there is no such thing as a “typical” year in the stock market.

As a result, **investors should expect a wide range of possible outcomes in any given year, whereas only the passage of time can lead to an annualized return near the market’s long-term average.**



Equity Performance in the Long Run



MYTH

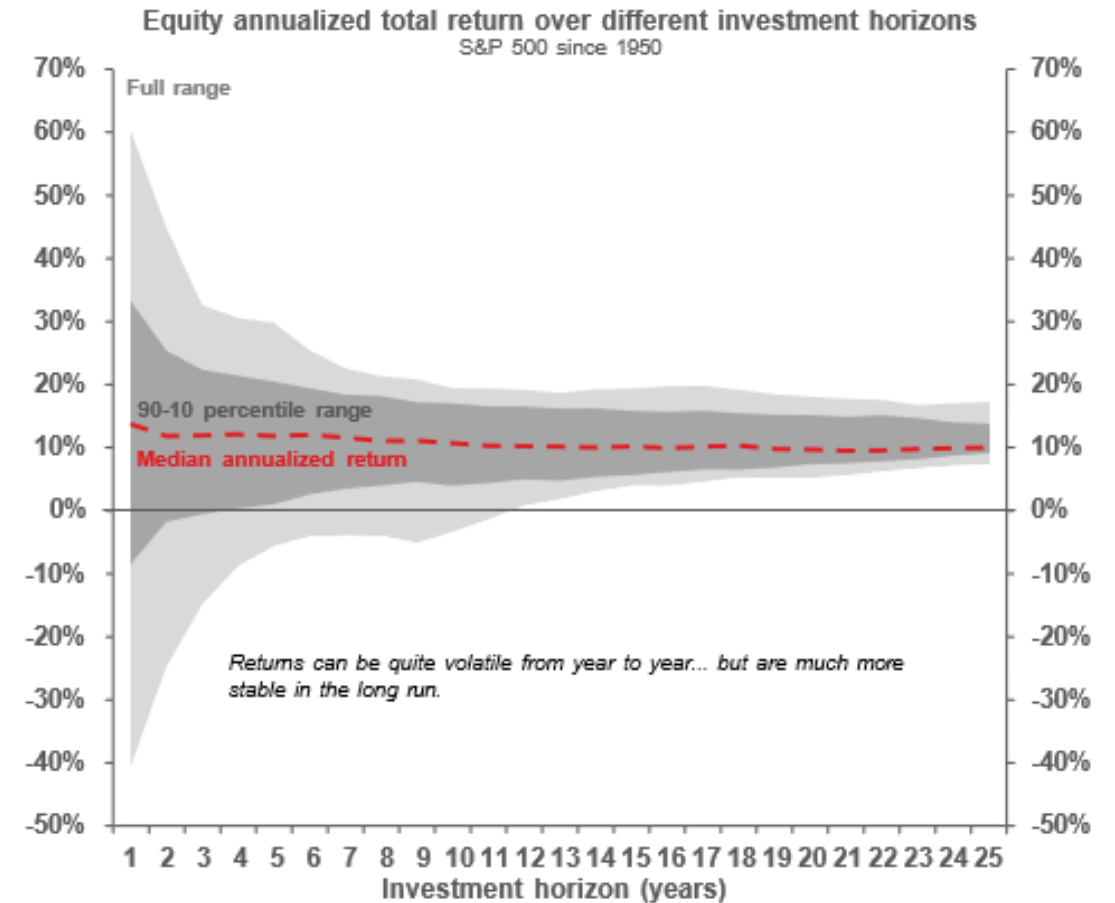
Investing in the stock market is akin to gambling at a casino.

REALITY

It is true that daily market fluctuations resemble a coin toss. Nevertheless, two fundamental reasons make investing completely different from gambling.

First, unlike the world of gambling, investing in the stock market is not a zero-sum game, as evidenced by the positive median annualized return (red dotted line). In the long run, equity returns come from companies' ability to grow their earnings, not from other investors' misfortune.

Second, while gambling remains just as uncertain no matter how long you “play”, the opposite occurs within equity markets, as evidenced by the narrowing range of outcomes over time (grey area). The longer one “plays” (i.e. remains invested), the greater the chances are of converging towards the premium investors earn for bearing equity risk.



Home Country Bias

MYTH

It is more prudent to invest most of your portfolio in companies domiciled at home and thus of greater familiarity than to “risk it” with foreign corporations.

REALITY

While predominantly investing in domestic equities might seem sufficient and feel comforting, such a portfolio could, in fact, be just the opposite. **Do not confuse familiarity with safety.**

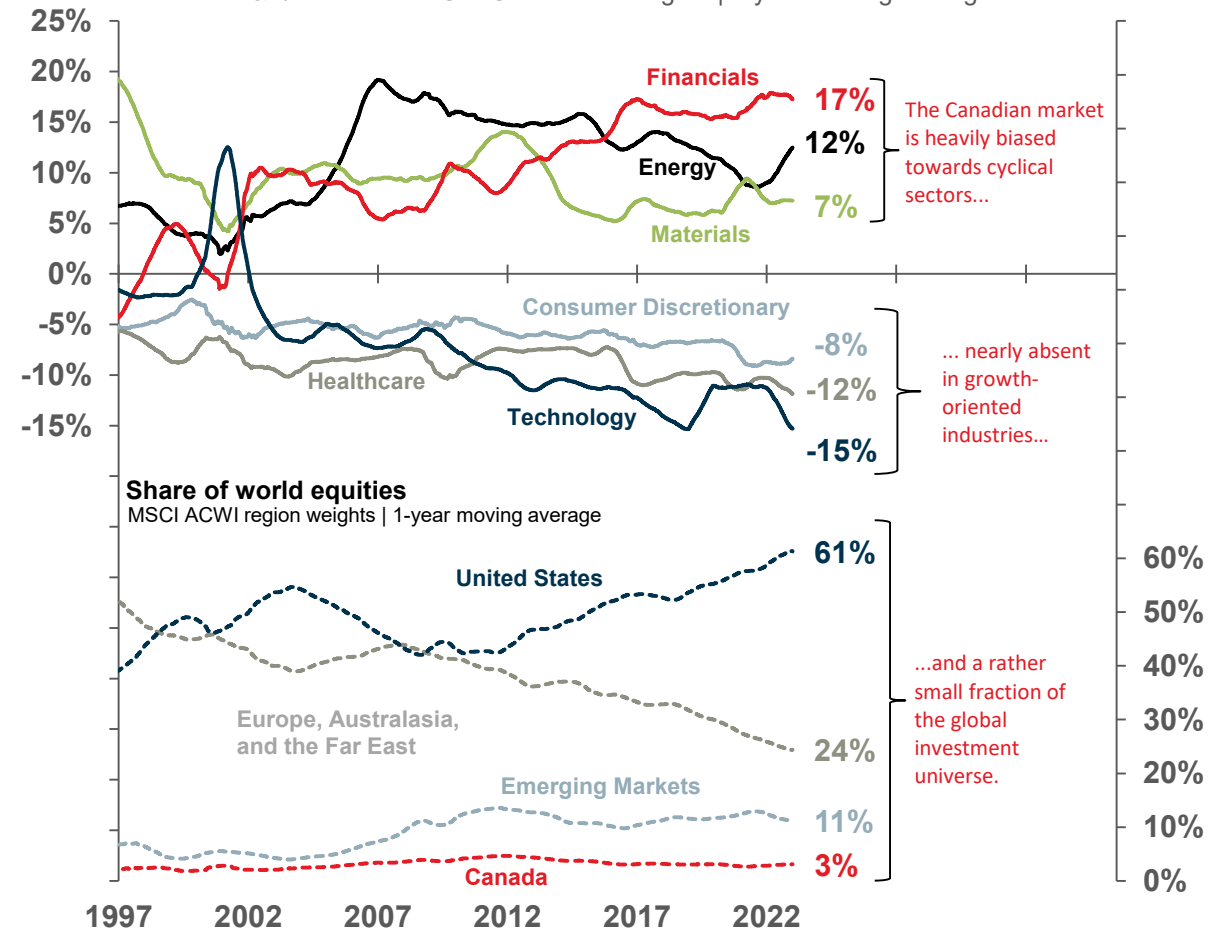
For instance, Canada’s stock market’s high concentration in some of the most cyclical sectors and its relative lack of growth-oriented companies poses a risk that can result in unpleasant surprises if left undiversified.

The good news is that there are plenty of opportunities abroad to complement for such risks. After all, Canadian stocks only represent 3% of the global equity investment universe... a far cry from the ~45% they account for in Canadians’ portfolios*. Home bias indeed!

* "Coordinated Portfolio Investment Survey" for 2014-2018.

Sector allocation spread - Canadian vs. World Equities

S&P/TSX less MSCI ACWI sector weights | 1-year moving average



CIO Office (data via Refinitiv) *Estimate base on an average from FMI's

Should Investors Fear Recessions?



MYTH

Investors should be fearful of recessions as they entail heavy financial losses.

REALITY

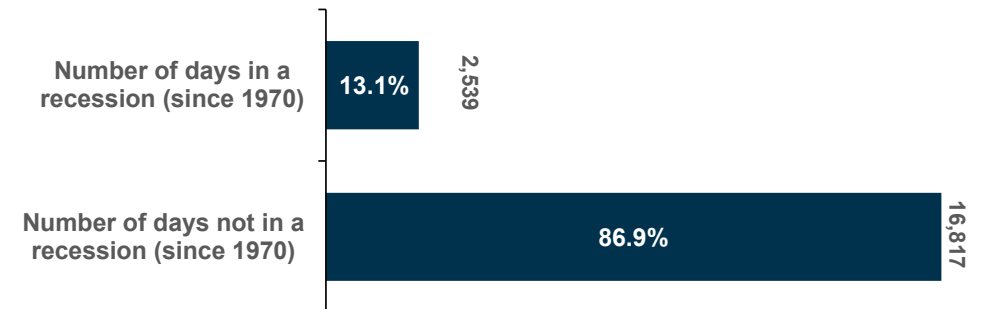
It is true that the most turbulent periods for markets are generally concomitant with recessions. As such, those with eyes riveted on daily stock exchange prices are very likely to experience fear in times of economic downturn.

However, if we step back from market fluctuations and look, rather, at the historical performance of a basic balanced portfolio (60% stocks, 40% bonds) during the last six recessions, we see that the average return was actually zero. Not something to celebrate, but far from the financial catastrophe many seem to believe – especially when we consider returns in the previous and following years. What’s more, let’s not forget that recessions are relatively rare events, covering only 13% of the last 50 years.

Therefore, **it is not the recession that investors should fear, but fear itself... or rather the risk of materializing heavy losses, when in the grip of emotion, at an untimely moment.**

Balanced portfolio (60/40)* total return

Recessions (NBER)	12-months Before	During Recession	12-months After	Full period**
Nov 1973 - Feb 1975	7%	-7%	12%	11%
Jan 1980 - Jun 1980	11%	9%	7%	31%
Jul 1981 - Oct 1982	9%	15%	26%	57%
Jul 1990 - Feb 1991	4%	6%	9%	21%
Mar 2001 - Oct 2001	-1%	-5%	-8%	-14%
Dec 2007 - May 2009	1%	-16%	9%	-8%
Feb 2020 - March 2020	16%	-9%	22%	28%
Average	7%	-1%	11%	18%



Data via Refinitiv. *60% MSCI World (in CAD) 40% ICE Bofa Broad Canada Universe (FTSE 91-day index for the 1973-1975 recession).

**Total return from 12-months before a recession until 12-months after a recession. Recession dates are from the NBER.

Are GICs a Risk-Free Alternative?



MYTH

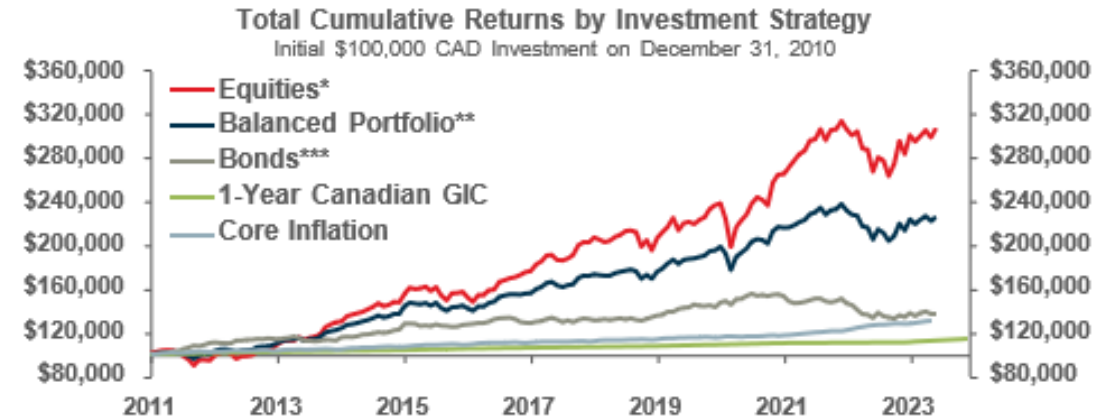
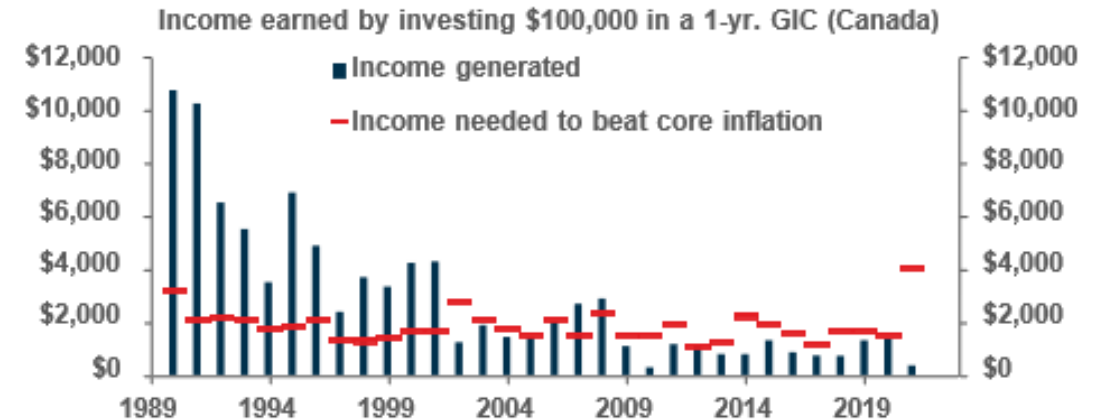
Guaranteed Investment Certificates (GICs) offer a risk-free alternative for investors seeking to at least preserve the purchasing power of their assets.

REALITY

GICs are indeed among the safest investment vehicles available. However, their returns, while guaranteed, generally fail to cover inflation, leaving their holders at risk of seeing their purchasing power decline over time.

It should be specified that this observation is a reflection of the low interest rate environment prevailing over the past several years. For instance, although a 1-year GICs provided income above inflation in the 1990s, this has not been the case since 2009.

Ultimately, the selection of an investment vehicle depends on risk tolerance - GICs may therefore be the right choice for some. However, **a key risk for investors whose investment horizon is measured in years may not be the short-term volatility of other assets, but rather the potential erosion of their purchasing power over the long run.**



Data via Refinitiv. *35% S&P 500, 35% S&P/TSX, 20% MSCI EAFE, 10% MSCI EM; all in CAD. **60% Equities, 40% Fixed Income ***100% ICE Bofa Broad Canada Universe

Back to basics: Diversification

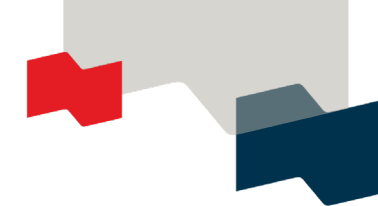
Over short periods of time, asset classes will take turns out-performing and under-performing. A diversified portfolio helps protect your investments against market fluctuations.

2015	2016	2017	2018	2019	2020	2021	2022	2023
Balanced* 6.7%	S&P/TSX 21.1%	MSCI Emerging 37.8%	Cash 1.5%	S&P 500 31.5%	Gold 20.9%	Commodities 40.4%	Commodities 26.0%	S&P 500 26.3%
Canadian Bonds 3.6%	US High Yield 17.5%	MSCI EAFE 25.6%	Canadian Bonds 1.3%	S&P/TSX 22.9%	MSCI Emerging 18.7%	S&P 500 28.7%	Cash 1.4%	MSCI EAFE 18.9%
S&P 500 1.4%	S&P 500 12.0%	S&P 500 21.8%	Balanced* -1.5%	MSCI EAFE 22.7%	S&P 500 18.4%	S&P/TSX 25.1%	Gold -0.7%	US High Yield 13.4%
Cash 0.7%	MSCI Emerging 11.6%	Can. Pref. Shares 13.6%	US High Yield -2.3%	MSCI Emerging 18.9%	Balanced* 9.8%	Can. Pref. Shares 19.3%	S&P/TSX -5.8%	Gold 12.8%
MSCI EAFE -0.4%	Commodities 11.4%	Gold 12.8%	Gold -2.8%	Gold 18.0%	Canadian Bonds 8.6%	MSCI EAFE 11.8%	CADUSD -6.8%	Balanced* 12.1%
US High Yield -4.6%	Gold 7.7%	Balanced* 9.7%	S&P 500 -4.4%	Commodities 17.6%	MSCI EAFE 8.3%	Balanced* 11.1%	Balanced* -10.1%	S&P/TSX 11.8%
S&P/TSX -8.3%	Can. Pref. Shares 7.0%	S&P/TSX 9.1%	CADUSD -7.8%	Balanced* 15.6%	US High Yield 6.2%	US High Yield 5.4%	US High Yield -11.2%	MSCI Emerging 10.3%
Gold -10.9%	Balanced* 7.0%	US High Yield 7.5%	Can. Pref. Shares -7.9%	US High Yield 14.4%	Can. Pref. Shares 6.2%	CADUSD 0.8%	Canadian Bonds -11.5%	Canadian Bonds 6.4%
MSCI Emerging -14.6%	CADUSD 3.0%	CADUSD 6.8%	S&P/TSX -8.9%	Canadian Bonds 7.0%	S&P/TSX 5.6%	Cash 0.2%	MSCI EAFE -14.0%	Can. Pref. Shares 5.9%
Can. Pref. Shares -14.9%	Canadian Bonds 1.5%	Commodities 5.8%	MSCI EAFE -13.4%	CADUSD 5.0%	CADUSD 2.0%	MSCI Emerging -2.2%	Can. Pref. Shares -18.1%	Cash 4.8%
CADUSD -16.0%	MSCI EAFE 1.5%	Canadian Bonds 2.7%	Commodities -13.8%	Can. Pref. Shares 3.5%	Cash 1.1%	Canadian Bonds -2.7%	S&P 500 -18.1%	CADUSD 2.3%
Commodities -32.9%	Cash 0.5%	Cash 0.6%	MSCI Emerging -14.2%	Cash 1.7%	Commodities -23.7%	Gold -4.3%	MSCI Emerging -19.7%	Commodities -4.3%

CIO Office (data via Refinitiv, as of 2023-12-29)

*A 60% stocks / 40% bonds portfolio made of: 21% S&P/TSX, 21% S&P 500, 12% MSCI EAFE, 6% MSCI Emerging Markets and 40% ICE BofA Canada Broad Market, all in C\$.

Historical Perspective on Bear Markets



It is difficult to predict the timing of market corrections. What can be reasonably assumed though is that markets often experience healthy rebounds after trying times.

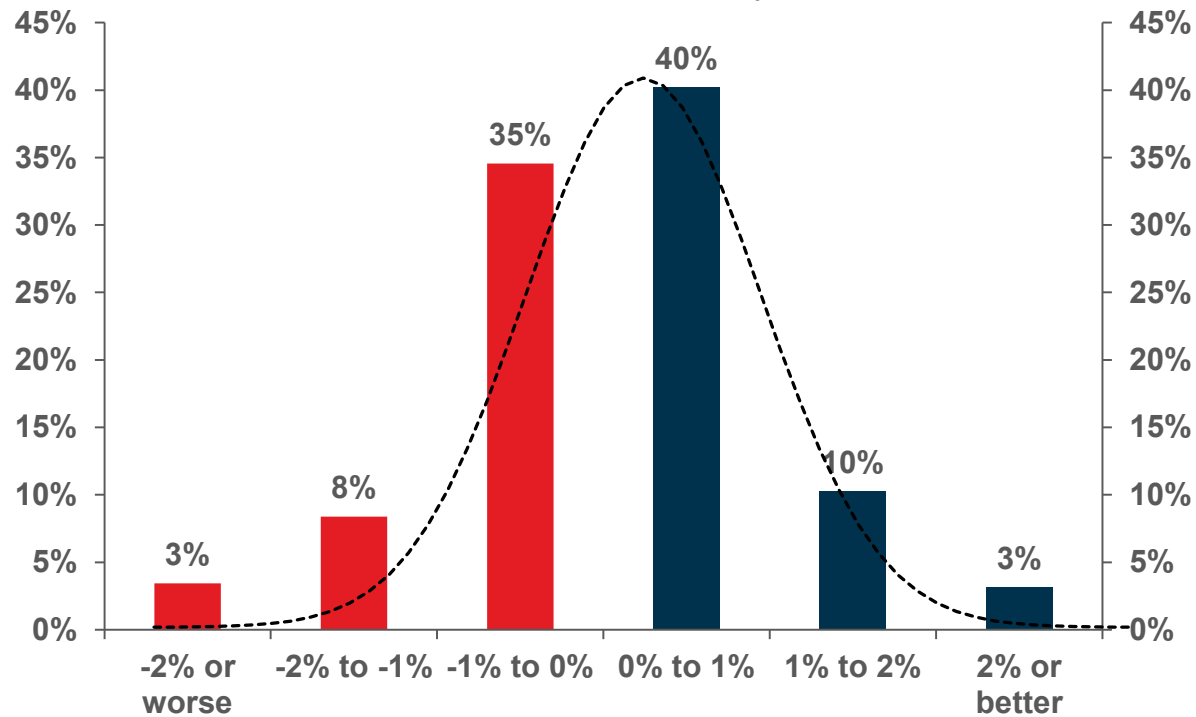
S&P 500 Bear Markets (1950-2022)

Peak	Trough	# days	Period Drawdown	# days to recover	Cumulative price return over the following:			
					6 months	12 months	24 months	36 months
1956-08-02	1957-10-22	446	-22%	337	8%	31%	47%	42%
1961-12-12	1962-06-26	196	-28%	434	20%	34%	53%	71%
1966-02-09	1966-10-07	240	-22%	209	22%	32%	37%	30%
1968-11-29	1970-05-26	543	-36%	650	19%	48%	54%	61%
1973-01-11	1974-10-03	630	-48%	2,114	35%	37%	68%	54%
1980-11-28	1982-08-12	622	-27%	83	43%	58%	48%	88%
1987-08-25	1987-12-04	101	-34%	600	13%	19%	50%	35%
2000-03-24	2002-10-09	929	-49%	1,694	13%	28%	45%	57%
2007-10-09	2009-03-09	517	-57%	1,480	48%	63%	96%	94%
2020-02-19	2020-03-23	33	-34%	148	52%	74%	99%	--
2022-01-03	2022-10-12	282	-25%	--	--	--	--	--
Average:		413	-35%	775	27%	43%	55%	59%

Daily Stock Market Fluctuations



Distribution of daily S&P 500 fluctuations
S&P 500 index over the last 40 years



Market fluctuations are normal, both mathematically* and literally. While only the few "extremes" end up in the evening news and morning shows, the truth is they don't matter all that much.

What really matters is the accumulation of "0% to 1%" days that rarely make the headlines, but explain much of the 12.3% S&P 500 annualized total return over the last 40 years...

...despite the fact that the index closes in the red almost every other day.

Ibbotson. S&P 500 bear markets are defined as periods when the index fell at least 20% from its all time high.

CIO Office (data via Refinitiv)

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