VOLATILITY | NOVEMBER 2018

Dear client,

Please find below our commentary regarding recent market fluctuations. Please don't hesitate to contact us if you have any questions.

—

OCTOBER BLUES

HIGHLIGHTS

Uncertainty surrounding rising interest rates, inflationary pressures, trade tensions, a slowdown in global growth, the future profits of companies, and the arrival of mid-term elections in the United States have led to an increase in market volatility.

CURRENT STATUS

Taking a step back from the day-to-day fluctuations that global stock market indexes exhibited in October, it is difficult to conclude that the economic environment remains as healthy as some experts had suggested. As we continue to move through the economic cycle and face the prospect of further interest rate increases, we expect market swings of this nature to become more frequent, particularly in combination with growing political uncertainty. Nevertheless, the fundamentals suggest it may be premature to take a defensive positioning within portfolios. As a result, we choose to stay the course and begin the month of November with an unchanged allocation towards equities.

5 REASONS TO STAND STILL

ECONOMIC INDICATORS

We acknowledge the fact that many U.S. economic indicators are at record levels, leading to the logical conclusion that they can only go down from here. While a recession occurs at the end of each economic cycle, we aren't seeing a reversal in key indicators to suggest that we will experience one in the shorter term. In addition, slower economic growth does not always lead to underperformance of equities, and therefore we are maintaining our current levels of exposure.

MONETARY POLICY

Monetary policty is not yet in restrictive territory, as suggested by a positively slopping yield curve. FED interest rate hikes are focused on returning to a more neutral stance, and at a pace that depends on the stability of financial markets. 2006 showed us that stocks can peak months after an outright negative yield curve. In our view, there is no need to act prematurely.

CREDIT MARKET

The rates on high yield bonds vs. other fixed income investments (spreads) widen in periods of incertainty. We are comforted by the fact that high-yield spreads have barely blinked through the recent equity market correction. It supports the view that the percieved risk and uncertainty of the selloff is overdone.

EQUITY VALUATIONS

For the first time since January 2016, equity valuations (15.25x forward earnings) have fallen below their long-term average (15.6x), which significantly improves the risk-reward of stocks, especially over a longer horizon.

EXUBERANCE

Are we in a period of exuberance? The answer is no! The 49% equity market returns over the last 5 years is much closer to their long-term average (47%) than the returns expierienced after October 1987 and tech bubble bursting in the early 2000s.

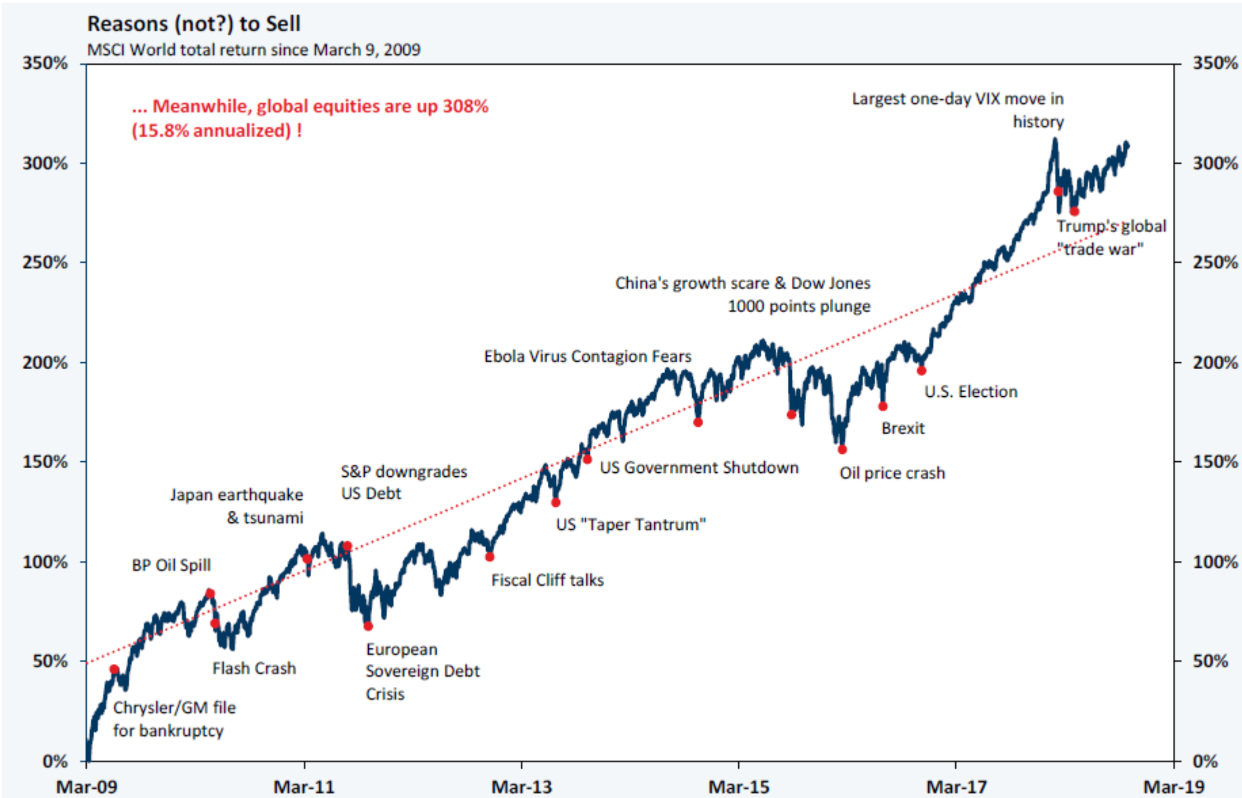
WHAT SHOULD YOU DO

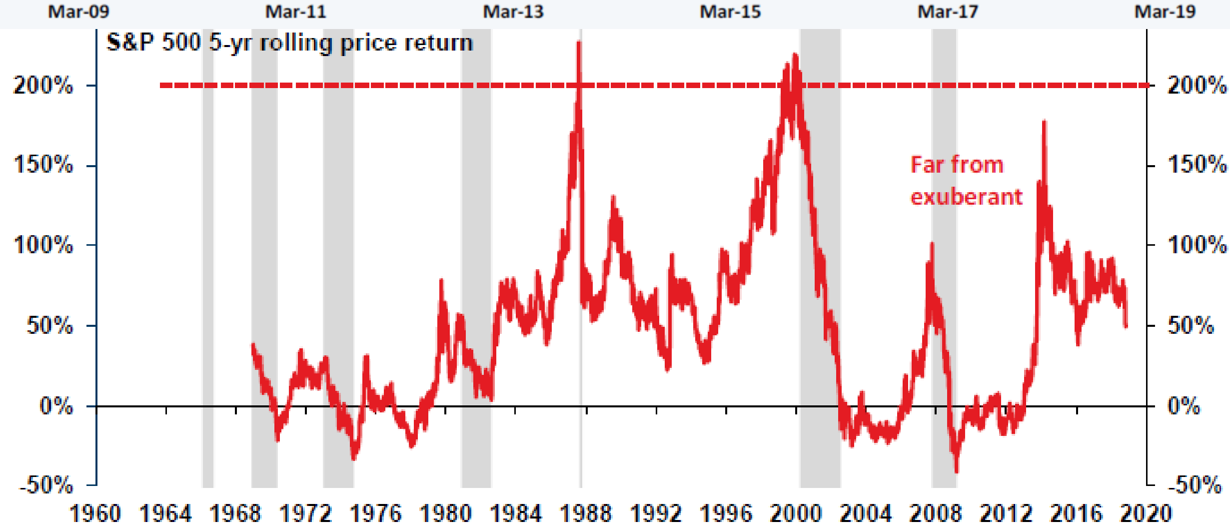
As the graphs on the following page show, slowdowns are more frequent than we think and, although very unpleasant at the time, they offer opportunities for those who will take a long-term view to their investment strategies.

Therefore, our evaluation has us conclude that we act with patience. The likelihood of risks materializing is not in our view, clear and present. Our ongoing portfolio review process will reposition your investments if key market and economic trends reverse.

Market fluctuations are an appropriate time to affirm your long-term plan. We invite you to contact us in the coming weeks for more details and to review your life goals.

NATIONAL BANK FINANCIAL
WEALTH MANAGEMENT





NATIONAL BANK FINANCIAL
WEALTH MANAGEMENT