NATIONAL BANK INVESTMENTS

Asset Allocation Strategy

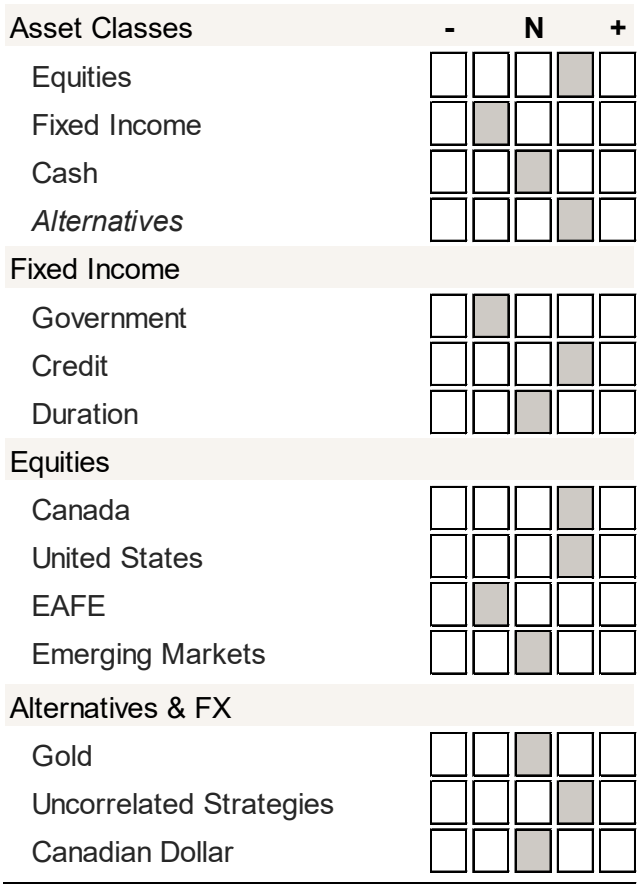
CIO Office | November 2026

Turning the page

Highlights

- Last month, market forces moved back somewhat into balance, as doubts about the financial viability of artificial intelligence led to a rotation within equity markets and eased pressure in bond markets.
- Recent market hesitation is fairly typical of the periods leading up to U.S. midterm elections. And, if history is any guide, what follows ahead should be positive for equities, much more so than for the Republican Party, which faces a nearly record-high presidential disapproval rating.
- Corporate earnings remain on a strong footing. To be sure, a significant share of S&P 500 earnings growth is attributable to the exceptional contribution of companies tied to the AI boom, whose recent results have often fallen short of ever-rising expectations. Still, a closer look also reveals encouraging results in other sectors.
- Unfortunately, the flip side of vigorous economic activity, combined with persistent energy disruptions, is inflation that refuses to slow in the United States. This contrasts sharply with Canada, where the average of core CPI measures has just reached the 2% target for the first time since early 2021.
- This backdrop did not prevent the Bank of Canada from following the Fed's lead by raising its policy rate for the first time since 2023. Markets are also pricing in about three rate hikes by each central bank over the next year. Whether that comes to pass remains to be seen, but there are reasons to be somewhat skeptical.

Global Asset Allocation Views



CIO Office

Bottom line

On the eve of the U.S. midterm elections, an important page in the Trump administration's second term seems poised to turn. On the economic front, however, the story should not change suddenly as long as the AI investment cycle—the dominant gravitational force in financial markets—remains in motion. In these circumstances, we are maintaining our positioning, which we will explore in greater detail in our 2027 Outlook, to be published next month.

Market review

Fixed Income

- Following a difficult month of September, Canadian fixed income sharply rebounded in October as bond yields declined broadly, particularly at the longer end of the curve.

- In the United States, Treasuries also posted strong gains, while lower-duration and riskier High Yield bonds underperformed.

Equities

- October saw pronounced underperformance across the AI space. Against this backdrop, Emerging Markets posted substantial monthly losses, led lower by South Korea and Taiwan. In contrast, the S&P/TSX enjoyed a better month, benefitting from its much smaller exposure to technology and the larger weight of Energy.

- Within the S&P 500, Communication Services significantly underperformed, as Alphabet and Meta recorded heavy monthly losses following disappointing earnings releases. On the other hand, Energy and defensive sectors (Consumer Staples, Health Care, Utilities) posted strong monthly returns.

FX & Commodities

- With little change in the situation in the Middle East, oil prices continued to rise in October. Gold, meanwhile, declined by 6.4%.

- The Canadian dollar appreciated against the U.S. dollar, supported in part by markets pricing in a more hawkish Bank of Canada than previously anticipated.

Market Total Returns

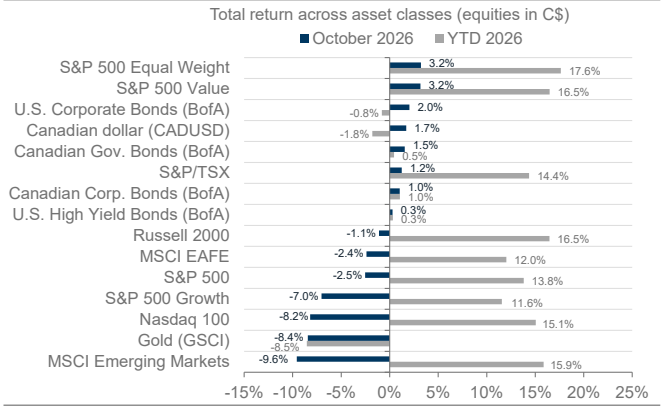
Asset Classes	October	YTD	12M
Cash (S&P Canada T-bill)	**0.2%**	**1.9%**	**2.3%**
Bonds (ICE Canada Universe)	**1.5%**	**0.6%**	**-0.5%**
Short Term	0.7%	1.2%	1.1%
Mid Term	1.5%	0.7%	-0.2%
Long Term	2.9%	-0.4%	-3.1%
Federal Government	1.4%	0.5%	-0.5%
Corporate	1.0%	1.0%	0.7%
U.S. Treasuries (US$)	2.4%	-0.4%	-0.3%
U.S. Corporate (US$)	2.0%	-0.8%	-0.5%
U.S. High Yield (US$)	0.3%	0.3%	1.5%
Canadian Equities (S&P/TSX)	**1.2%**	**14.4%**	**20.4%**
Communication Services	2.4%	-11.6%	-13.3%
Consumer Discretionary	5.9%	5.2%	14.9%
Consumer Staples	6.4%	7.8%	16.4%
Energy	8.7%	38.8%	42.5%
Financials	3.6%	23.8%	34.5%
Health Care	0.5%	3.5%	0.6%
Industrials	2.4%	9.4%	8.5%
Information Technology	2.0%	-0.8%	-10.4%
Materials	-13.1%	-4.0%	13.0%
Real Estate	1.5%	-2.4%	-4.6%
Utilities	5.3%	15.0%	12.5%
S&P/TSX Small Caps	-4.7%	15.1%	24.0%
U.S. Equities (S&P 500 US$)	**-0.9%**	**11.8%**	**12.1%**
Communication Services	-15.1%	-11.3%	-6.6%
Consumer Discretionary	3.9%	-2.1%	-3.7%
Consumer Staples	11.6%	18.3%	21.1%
Energy	14.0%	59.9%	64.2%
Financials	5.9%	4.5%	9.7%
Health Care	9.9%	21.0%	30.5%
Industrials	0.3%	8.9%	9.3%
Information Technology	-6.8%	19.6%	14.2%
Materials	6.6%	16.0%	23.5%
Real Estate	5.1%	10.7%	10.4%
Utilities	10.2%	3.9%	0.4%
Russell 2000 (US$)	0.6%	14.4%	14.8%
World Equities (MSCI ACWI US$)	**-1.6%**	**11.5%**	**12.7%**
MSCI EAFE (US$)	-0.7%	10.0%	14.0%
MSCI Emerging Markets (US$)	-8.0%	13.8%	14.4%
Commodities (GSCI US$)	**4.8%**	**62.7%**	**62.1%**
WTI Oil (US$/barrel)	17.3%	87.8%	74.2%
Gold (US$/oz)	-6.4%	-9.9%	-2.1%
Copper (US$/tonne)	-0.9%	15.1%	31.8%
Forex (US$ Index DXY)	**0.4%**	**3.6%**	**2.1%**
USD per EUR	-1.7%	-5.0%	-3.3%
CAD per USD	-1.8%	1.8%	-0.3%

CIO Office (data via Refinitiv, as of 2026-10-30)

Turning the page

Last month, market forces moved back somewhat into balance, as we saw a rotation out of recent leaders, such as Emerging Markets and the Nasdaq 100, and into laggards, including the S&P/TSX and bonds (**Chart 1**).

1 | Leadership changed hands in October…

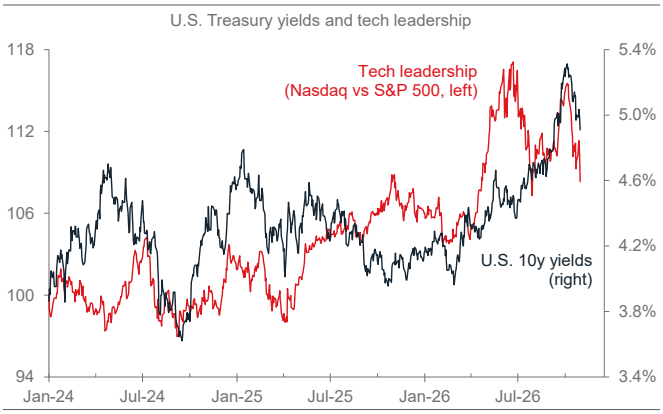


CIO Office (data via Refinitiv).

At the heart of these reversals lies a renewed questioning of the financial viability of artificial intelligence (AI), particularly among highly leveraged, concentrated players such as CoreWeave.[1] The idea that massive investments in AI are contributing significantly to recent moves in bond yields — by affecting economic growth and competition for capital — has clearly gained credibility (**Chart 2**). That is good news in a world where portfolio diversification is essential.

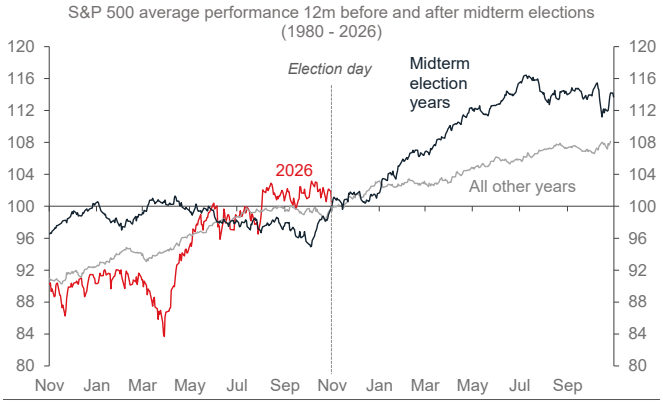
Nevertheless, it still seems premature to conclude that these moves signal the beginning of a complete shift in market dynamic. Indeed, the wavering during recent months is typical of periods ahead of U.S. midterm elections. What's more, Equity Markets generally post stronger returns in the months following the vote (**Chart 3**). This is likely due to reassurance by the relative stability that follows the almost systematic losses suffered by the

2 | … amid a reversal in the AI landscape



CIO Office (data via Refinitiv).

3 | On the eve of the U.S. midterm elections…



CIO Office (data via Refinitiv).

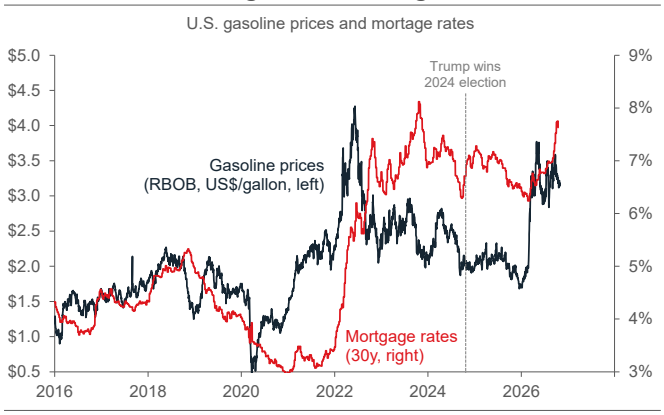
president's party, which reduces the likelihood of major legislative changes.

It remains to be seen whether what comes next will follow historical averages. One thing is certain: the current environment is far from ordinary. The U.S. president's disapproval rating is near a record high (**Chart 4**, next page), as two key symbols of the cost of living — the price of gasoline and mortgage rates — have risen sharply since his election (**Chart 5**, next page).

In these circumstances, the new Congress which takes office in January 2027 is set to be divided, with the odds of Democrats taking control of the

[1] CoreWeave's Big Dream Crashes Into Reality as Yields Top 15%, Bloomberg, October 14, 2026.

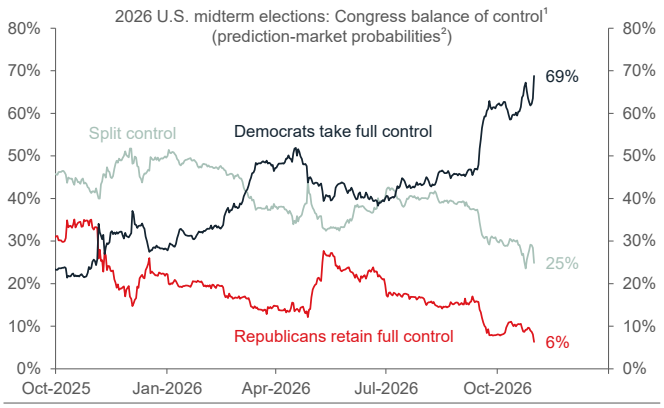
5 | … with the rising cost of living



CIO Office (data via Refinitiv).

House and Senate at 92% and 69%, respectively (**Chart 6**).

6 | It's shaping up to be a tough night for Republicans

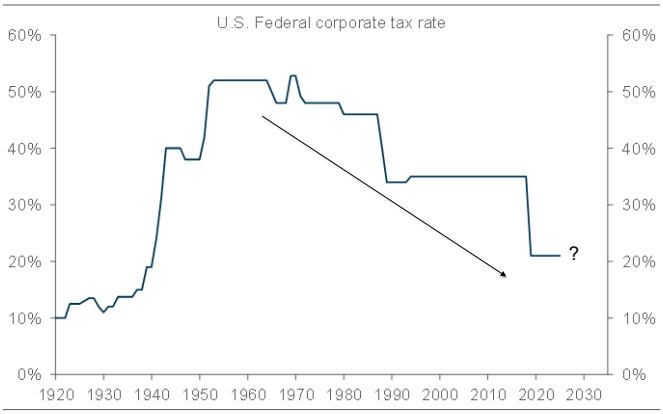


CIO Office (data via Polymarket, Kalshi). 1. Full control means control of both chambers (House + Senate). 2. Kalshi from Dec. 13, 2025; Polymarket before.

Given these odds, this scenario may already be largely priced into financial markets. That said, even though the 2028 presidential election is still some time away, investors will be watching for signals about the post-Trump era, particularly regarding tax policy for large publicly traded companies. After five decades of a gradual decline in their tax burden, the question is increasingly less about whether the trend will reverse and more focussed on when and to what extent (**Chart 7**).

In the short term, our approach — and our recommendation — in response to political events remains to manage risk rather than make major

7 | Could corporate taxes eventually rise?



CIO Office (data via Internal Revenue Service)

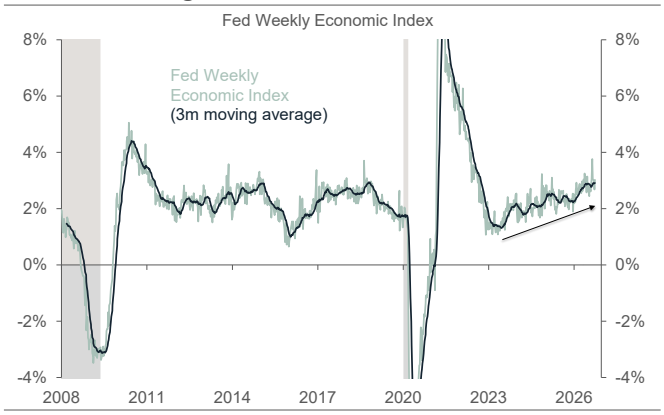
directional bets. As portfolio managers, this was one reason we reallocated some equity gains to bonds in September, while also reducing our exposure to Emerging Markets — the region most exposed to the AI theme — in favour of Canadian equities.

Next month, we will publish our 2027 outlook, setting out in detail our views and positioning across major asset classes. Until then, as we prepare to turn an important page in President Trump's second term, let us take a brief look at whether the economic story is changing.

Same story?

From an economic growth perspective, the trend remains very strong. For instance, the Dallas Fed's weekly indicator[2] (which translates high-frequency economic data into an estimate of annual real GDP growth) has continued to strengthen since reaching a low in early 2023 (**Chart 8**).

8 | Economic growth continues to accelerate



CIO Office (data via Refinitiv).

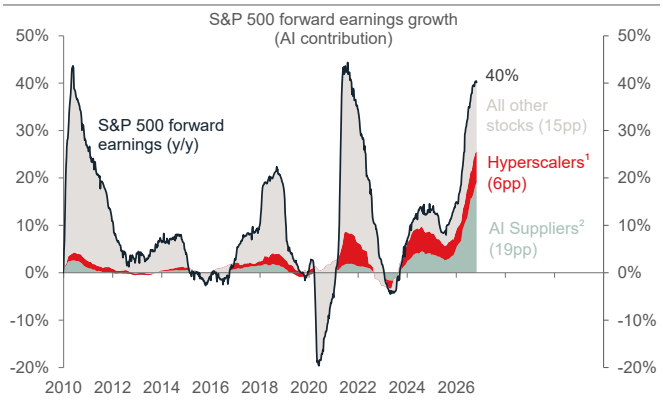
Similarly, S&P 500 companies continue to post one of the strongest annual earnings growth rates on record. To be sure, more than half of that growth is attributable to the exceptional contribution of companies tied to the development of AI (**Chart 9**). Several of them have also recently reported results that fell short of ever-rising expectations [3], underscoring the importance of carefully managing exposure to these stocks.

However, beyond technology names, a clear majority of sectors are reporting not only positive profit growth, but growth above their five-year average (**Chart 10**). This shows that improving fundamentals are not simply an AI story.

The flip side of vigorous economic activity combined with ongoing energy disruptions is core inflation that refuses to slow. At least, that is the case in the United States where inflation has been stuck near 3% for the past two years. This stands in sharp contrast to Canada, where the average of core CPI measures has just reached the 2% target for the first time since early 2021 (**Chart 11**, next page).

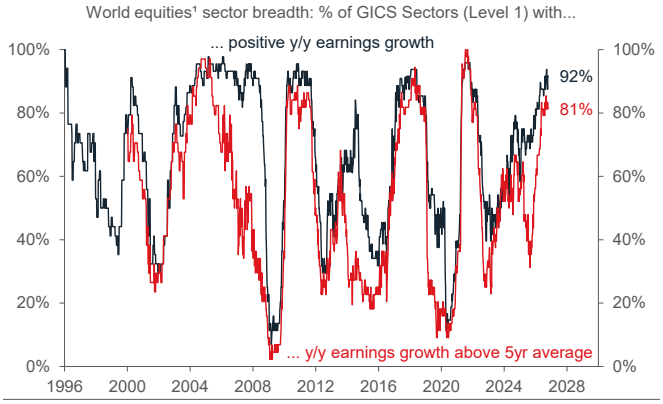
Yet, despite the widening inflation gap between the two countries, the Bank of Canada appears to believe it needs to maintain its (already substantial) interest rate differential with its southern neighbour. That is the signal it sent when it raised its policy rate in October for the first time since 2023, following the Fed's move in September. Markets are also pricing

9 | S&P 500 profits are supercharged by AI stocks…



CIO Office (data via Refinitiv). 1. Microsoft, Amazon, Alphabet, Meta, Oracle. 2. Nvidia, AMD, Broadcom, Marvell, Intel, Micron, Applied Materials, LAM Research, KLA, Dell, Arista, Vertiv.

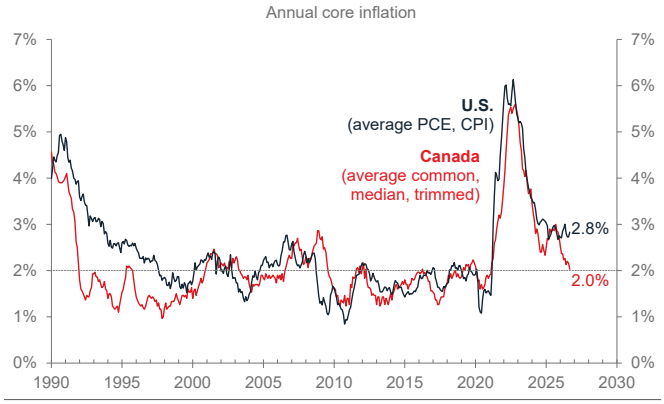
10 | … but they don't have a monopoly on growth



CIO Office (data via Refinitiv).

[2] https://www.dallasfed.org/research/wei
[3] Big Tech sheds nearly $900bn in rout over soaring AI spending, Financial Times, October 30, 2026.

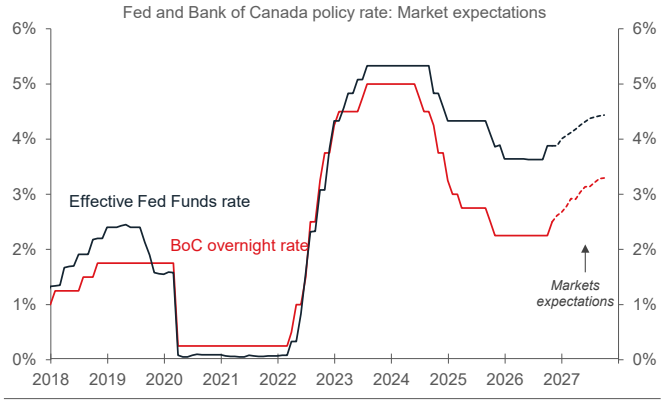
11 | U.S. inflation stalls; Canada's slows…



CIO Office (data via Refinitiv).

in approximately three rate hikes on each side of the border over the next 12 months (**Chart 12**).

12 | … yet policy rates are rising on both sides

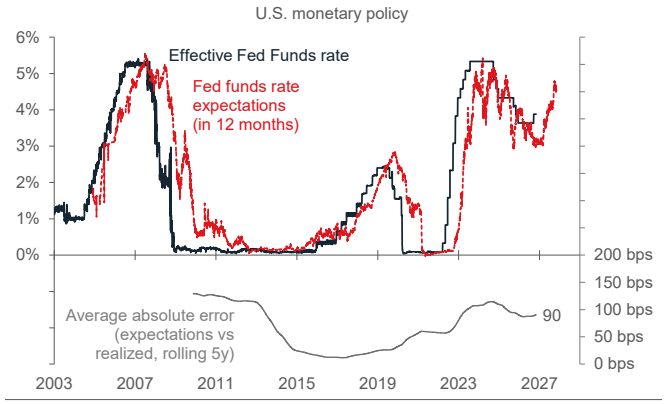


CIO Office (data via Refinitiv).

Perhaps that is what lies ahead. But before drawing a firm conclusion, it is worth remembering that markets' 12-month expectations are rarely accurate. Over the past five years, they have been wrong by an average of 90 basis points, equivalent to about four rate moves. The error over the past year was of a similar magnitude: markets expected the Fed's rate to be at 3% by now, whereas it stands at 4% (**Chart 13**).

Of course, none of this tells us how large the forecasting error will be over the next year or in which direction it will go. However, as we noted last month, some indicators suggest that the Fed is

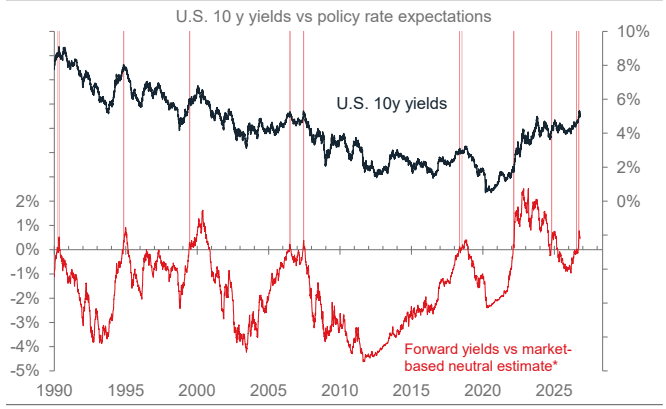
13 | What will the forecast error be this time?



CIO Office (data via Refinitiv).

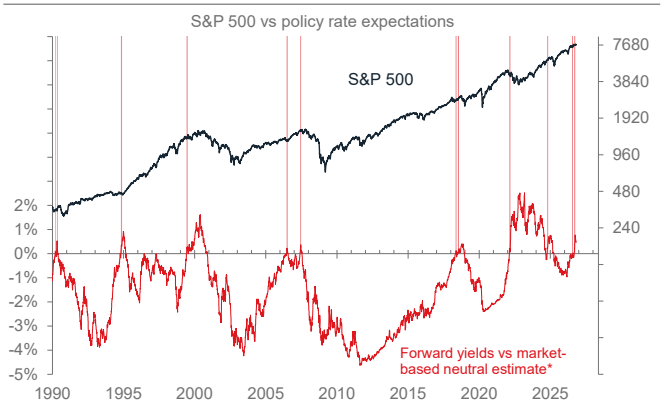
moving toward restrictive monetary policy. With the exception of the 2022 inflation episode, this situation has often preceded downward revisions to expected rate moves, which generally end up supporting bonds (**Chart 14**) and shaking equities (**Chart 15**).

14 | The Fed rarely stays restrictive for long



CIO Office (data via Refinitiv). *Spread between the 1-year rate one year forward, which reflects market expectations for the Fed's policy rate, and the 5-year rate five years forward, which serves as a market-implied estimate of the neutral rate.

15 | Stock markets are under strain



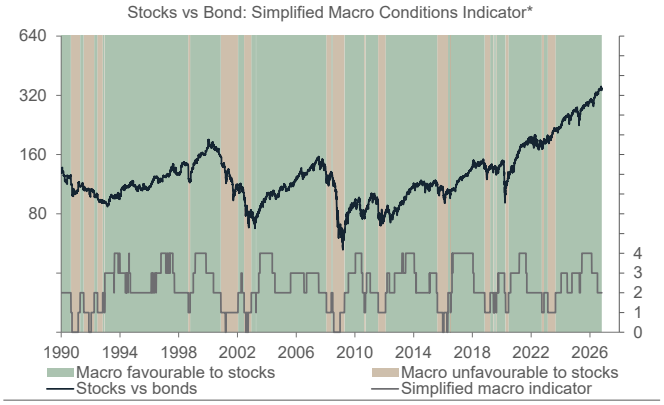
CIO Office (data via Refinitiv). *Spread between the 1-year rate one year forward, which reflects market expectations for the Fed's policy rate, and the 5-year rate five years forward, which serves as a market-implied estimate of the neutral rate.

The bottom line for investors

Even if an important page in the Trump administration's second term is about to turn, the economic story should not change suddenly.

In this context, we are maintaining a slightly favourable stance toward risk assets. Although rising interest rates are weakening the bull market, strong earnings and favourable momentum continue to support an overweight position in equities (**Chart 16**).

16 | A moderately risk-on stance remains justified

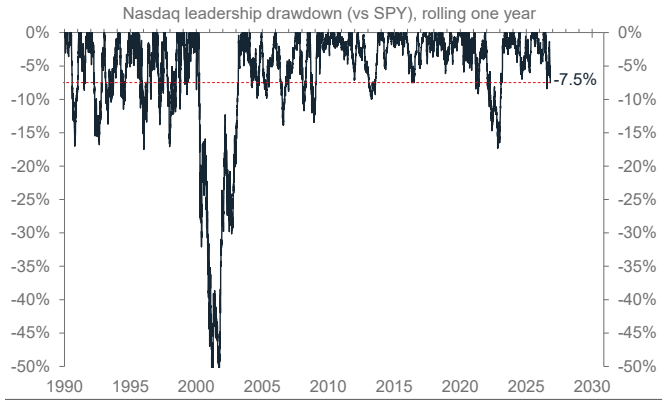


CIO Office (data via Refinitiv). The indicator measures 4 conditions: (1) 12m fwd earnings positive, (2) broad-based global growth, (3) large majority of central banks accommodative, (4) equities positive relative momentum vs bonds.

Looking ahead, it remains essential to closely monitor developments in AI, which exerts a dominant gravitational pull in financial markets. In this regard, Anthropic's IPO[4] will be worth watching, as it should provide greater transparency into an AI lab's business model and clarify investors' appetite for this type of company.

For now, however, there is nothing to suggest that the AI theme is nearing an abrupt end. In and of itself, the Nasdaq's recent underperformance relative to the rest of the markets is not unusual (**Chart 17**).

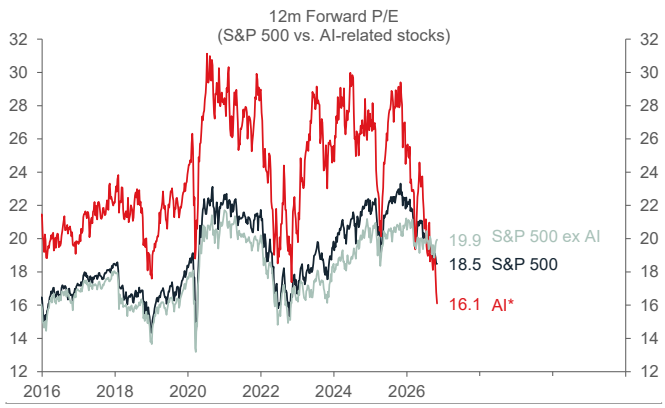
17 | The tech correction is not out of the ordinary



CIO Office (data via Refinitiv).

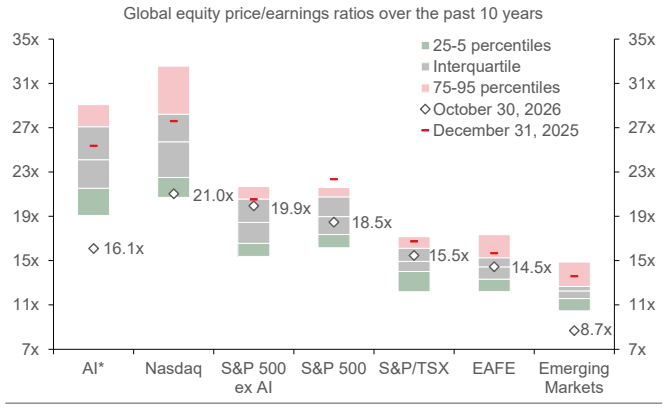
More importantly, for the first time, AI-related stocks are trading at lower valuations than the rest of the equity market (**Charts 18 and 19**). This suggests that investors are not completely oblivious to the many risks on the horizon — quite the contrary.

18 | AI stocks are cheaper than the rest: a first



CIO Office (data via Refinitiv).*Microsoft, Amazon, Alphabet, Meta, Oracle, Nvidia, AMD, Broadcom, Marvell, Intel, Micron, Applied Materials, LAM Research, KLA, Dell, Arista, Vertiv.

19 | Uneven contractions in valuation multiples



CIO Office (data via Refinitiv).*Microsoft, Amazon, Alphabet, Meta, Oracle, Nvidia, AMD, Broadcom, Marvell, Intel, Micron, Applied Materials, LAM Research, KLA, Dell, Arista, Vertiv.

[4] Anthropic's IPO Sets Up Defining Moment for Wall Street and AI Boom, Bloomberg, October 26, 2026.

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