

GLOBAL PERSPECTIVES, REGIONAL INSIGHTS

ECONOMIC & MARKET OUTLOOK

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FOREWORD



Chris Manning, Executive Vice President, Canadian Commercial Banking

As we continue to navigate an increasingly dynamic and often unpredictable global economy, I am pleased to share this special edition of Scotiabank's Global Outlook report, brought to you by our partners in Global Investment Solutions. This publication reflects our ongoing commitment to delivering the insights and expertise you need to make informed decisions.

The outlook for Canadian businesses is complex, marked by both challenges and opportunities. Tariffs present meaningful headwinds, and in some cases are giving pause to investment decisions across sectors and disrupting supply chains and pricing strategies. Businesses will need to stay agile and responsive to navigate this uncertainty.

However, the road ahead is not without promise. As Canada charts a new course, Scotiabank is here to support you every step of the way. Our team is committed to helping you uncover and capitalize on opportunity, with innovative solutions and strategic advice tailored to your business needs. By drawing on our global capabilities across our global platforms, we are proud to offer a comprehensive, integrated approach to helping your business thrive — whatever the conditions.





GLOBAL ECONOMIC OVERVIEW

THE RISING COST OF UNCERTAINTY

Uncertainty is here to stay, with the direction of U.S. economic and geopolitical policy now representing the greatest challenge to the global economy.

The early-April tariffs announcement from the White House took most, including us, by surprise in its aggressiveness, as did the massive tariff hike on China in the days that followed. Were these tariffs to last for several quarters, the U.S. economy may find itself fighting to stay in positive growth territory.

Aggressive U.S. trade actions and possible retaliation may impose significant economic costs to all involved, with consequential impacts on asset and commodity markets.

The U.S.'s latest tariffs salvo is estimated to result in a ~20 percentage point increase in the country's effective tariff rate. Without a doubt, this will have implications in the form of higher prices, and weaker consumption and investment momentum.

Given the economic damage that long-lived tariffs may cause, there is reason to doubt that these may remain at their announced levels for a long period of time. This may be behind the recent 90-day reciprocal tariff pause on most of the U.S.'s trading partners, apart from China.

Canada and Mexico's greater reliance on the U.S. economy places them at a higher risk from tariffs and a deeper U.S. slowdown Others, like the Eurozone and China, may have been motivated by U.S. policy to roll out bigger fiscal support measures at home that could partially offset tariff dangers, though public measures will likely fall short of making up the losses.

SPOTLIGHT ON TARIFFS

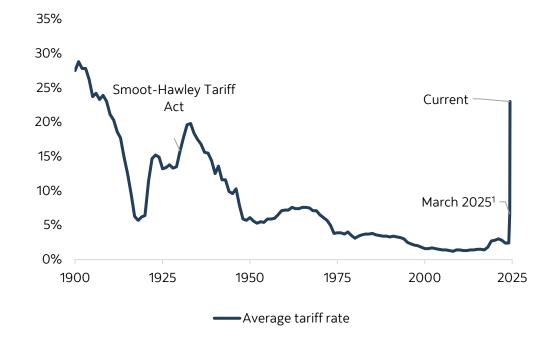
A GLOBAL TRADE WAR COULD HAMPER ECONOMIC MOMENTUM

U.S. President Trump followed through on his threat that April 2nd would mark a "Liberation Day" of tariff hikes to counteract what the White House perceives to be 'unfair' trade practices. By presidential decree, the U.S. hiked import tariff rates on all trading partners, with an aim to level the playing field.

The proclamation marks an aggressive tariff hike on the U.S.'s key trading partners, but exclusions for Canada and Mexico as well as certain goods (namely pharmaceuticals, semiconductors, and copper) offset some of the damage. Nevertheless, the hawkishness of these actions surprised investors, who had expected a more targeted or measured approach.

Canada and Mexico were not the focus of the 'reciprocal' tariffs action and were left in good shape in relation to other key U.S. trading partners. While Liberation Day came and went without a tariff break on the non-U.S. content share of finished vehicle imports for Canada and Mexico, the U.S. did extend 25% tariff pauses on all other USMCA-compliant imports, with no end-date for this reprieve. Exemptions under the USMCA (the North American free trade agreement) could limit the economic impact on Canada and Mexico. In the days that followed, the U.S. granted a 90-day pause on reciprocal tariffs, while opting to keep the 10% baseline tariff. While this is a relief for the U.S.'s trading partners, the effective tariff rate is now even higher than the would-be Liberation Day tariff rate due to the outsized levies imposed on China.

The U.S. tariff rate could rise to the highest in over a century



GLOBAL INVESTMENT STRATEGY

ELEVATED TRADE RISKS UNDERSCORE HIGH QUALITY PREFERENCE

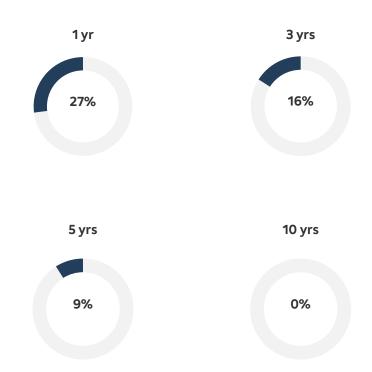
Trade policy uncertainty has emerged as the biggest risk for investors. However, the market may not be fully pricing in these risks, as evidenced by healthy 2025 earnings estimates and tight credit spreads.

While equity markets struggled year-to-date, further turbulence cannot be ruled out. The extent of the market impact in subsequent quarters will depend on the magnitude of the tariffs and how long they remain in place. Significant intra-year equity market drawdowns have historically been common, even in years without major economic stress. A similar impact could be seen in fixed income markets, with multi-year tight credit spreads at risk of widening, particularly for lower-rated issuers.

High-quality companies are best positioned to withstand uncertainty. While not immune to profit pressures and a potential sell-off, a temporary earnings decline is unlikely to materially affect the long-term intrinsic value of a quality business. In a similar vein, high quality fixed income stands to benefit if economic conditions deteriorate as haven bids drive bond prices higher.

While trade policy uncertainty remains a headwind, long-term investors should keep in mind several principles key to achieving their objectives. Notably, diversification across asset classes, sectors, and geographies, maintaining a high-quality bias in investment portfolios, and remaining invested have all provably led to better risk-adjusted outcomes over time.

Long time horizons reduce the likelihood of negative returns



Percentages show the instances of negative returns over varying time periods for a 60/40 balanced portfolios

GLOBAL ASSET ALLOCATION

SOVEREIGN DEBT EXPOSURE CAN MITIGATE THE EFFECTS OF A POTENTIAL ECONOMIC SLOWDOWN

Current conditions do not justify taking on excessive risk in investment portfolios. Instead, high-quality assets are preferred in this uncertain environment.

Within equities, our regional preference is tilted toward the U.S. Despite the recent selloff, which weighed more heavily on the U.S. than other markets, our medium- to long-term outlook for the region remains constructive. This is because the U.S. market is home to some of the highest quality companies in the world and is well-diversified across growth-oriented sectors. That said, our overweight to the U.S. is modest amid tariff-related uncertainty, elevated valuations, and concentration risks.

International stocks may also offer opportunities but ongoing geopolitical uncertainty in Europe (U.S. tariffs and the Ukraine-Russia war) warrant a cautious approach – though fiscal plans are encouraging. We are cognizant of risks to Canadian stocks due to the potential impacts of a protracted trade war with the U.S.

In fixed income, sovereign bonds can provide protection in the event of an unexpected economic slowdown. Although growth has been resilient to this point, concerns are rising amid sticky inflation, relatively tight monetary policy, and trade policy uncertainty. Corporate credit spreads remain below their long-term average. This suggests that the additional compensation for taking on credit risk is relatively low from a historical perspective. While spreads are tight for both investment grade and high yield bonds, the latter faces a greater risk of widening if economic conditions worsen, reinforcing our relative preference for the former within corporate credit.

Global Asset Allocation

Asset class	UW	N	OW	Δ
Equities				
Domestic	•	0	0	=
U.S.	0	0	•	=
International	0	•	0	=
Fixed income				
Sovereign	0	•	0	Û
IG	0	0	•	û
HY	•	0	0	=

EQUITIES

ROCKY START FOR U.S. EQUITIES WHILE INTERNATIONAL MARKETS LEAD

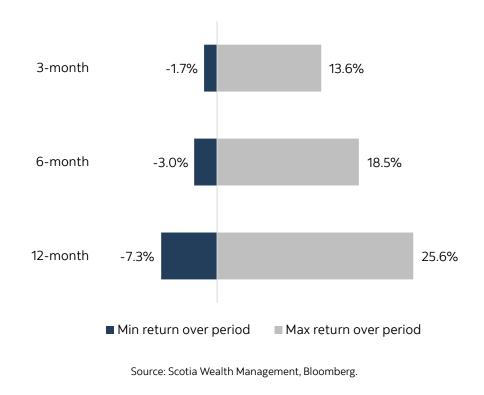
U.S. equities have had a turbulent start to 2025, lagging Canadian and International indices, on concerns that the U.S. economy may experience higher inflation and weak growth – or even a recession – resulting from trade and public spending policies. Sizable losses among Mag 7 names have also accentuated the decline. However, our work shows that when financial market volatility spikes, forward risk-adjusted returns are skewed positively (see chart).

U.S. earnings growth expectations have yet to be revised significantly lower as analysts may be wagering that trade disputes will be short-lived. However, positive momentum and optimism that arose from tax cuts and deregulation hopes has now stalled, and near-term earnings risks may be biased to the downside. Equity markets are also pointing to a rotation from growth into more defensive sectors.

Canadian earnings growth expectations are also healthy. However, the Canadian benchmark's price has expanded at a slower pace compared to earnings in recent years relative to the U.S. market. This may partly explain why Canadian stocks have performed better year-to-date than their U.S. counterparts.

International equity markets have displayed a resurgence in 1Q25, outperforming their North American counterparts. Tariff uncertainty has had a greater relative impact on North American markets, while International equities have benefitted from Germany's stimulus plans and lofty GDP growth and deficit targets by China. LatAm indices look to be staging a recovery following an extreme downturn in 2024, despite the weak tone being set by U.S. equities. The region's high dependence on the global economy, namely China and the U.S., makes local markets highly sensitive to volatility driven by global trade and growth developments.

Market volatility peaks before markets bottom, but equities recover shortly thereafter, with forward returns skewed positively.



FIXED INCOME

FIXED INCOME SHINES AGAINST OUTLOOK CLOUDED BY UNCERTAINTY

In recent weeks, fixed income has played the starring role as the portfolio ballast, outpacing equity returns so far in 2025, as trade policy uncertainty consumes headlines and impacts growth expectations, with limited resolution on the horizon to calm frayed nerves.

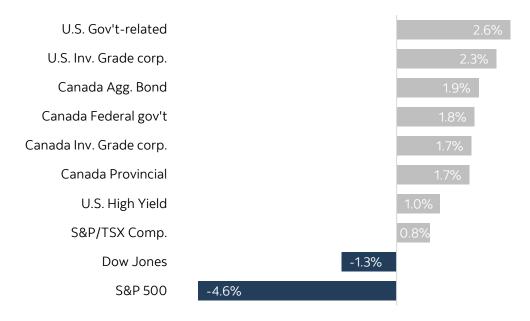
Global sovereign yields have diverged amid slowing economic growth, rising inflation expectations, and global fiscal rebalancing, but investors are broadly being paid – in fixed income – to pause and examine the macroeconomic landscape.

We continue to prefer the short-to-medium part of the sovereign curve, though the longer end is increasingly screening as attractive as the steepening we had forecasted is unfolding.

Rich credit valuations have been met head-on with uncertainty. Yet, investment grade credit has been resilient and a low-beta asset, continuing to perform admirably (so far). Risks may be increasing, however, as U.S. policy uncertainty damages consumer and business confidence.

We maintain our preference for investment grade over high yield debt as credit spreads are tight for the current economic and earnings outlook. Within investment grade, we favour economically defensive, higher quality (A-rated over BBB-rated) companies.

Fixed income has outpaced equities year-to-date



Source: Scotia Wealth Management, Bloomberg.

COMMODITIES & CURRENCIES

COMMODITIES: OIL IN EXCESS SUPPLY, GOLD PREMIUM IS HERE TO STAY

We had expected little direction in oil prices in the medium-term, with Brent averaging \$70-75/bbl over the forecast horizon, as supply continues to exceed demand while downside outweigh upside risks. Recent tariff developments have weighed heavily on crude oil prices amid demand destruction fears.

Gold should continue to trade at an above-average premium to fair value thanks to Fed rate cuts later in the year, heightened geopolitical risks, economic uncertainty, and ongoing strength in official purchases. Fair-value premium aside, we see gold averaging \$2,600/oz in 2025.

In copper, we continue to forecast a market largely in balance in the near term with relatively low visible inventories, before the emergence of large structural deficits in the medium-term driven by a lack of meaningful supply growth.

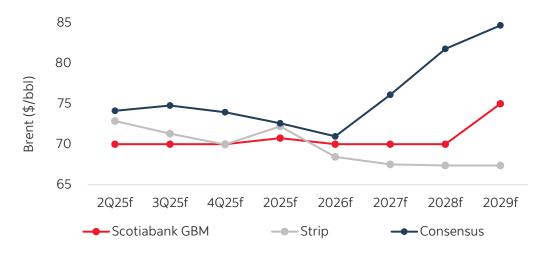
CURRENCIES: USD EXCEPTIONALISM IS NOW IN DOUBT

The USD's bullish euphoria ahead of, and following the November elections, has faded rather quickly since mid-January, despite high volatility and uncertainty that would tend to support the dollar.

The U.S. economy and the President's policies are at the epicenter of this uncertainty, however, prompting investors to ditch the USD and consider alternative havens or limit their dollar bets as the USD's yield appeal narrows.

G10 currencies, bar the CAD, have benefited from this compression in yield spreads and cooling optimism for the U.S. economy and markets. Although the CAD is still marginally stronger year-to-date, it, alongside the MXN, face strong headwinds from U.S. protectionism.

Crude oil prices to remain little changed over the forecast horizon



USD follows rate differentials conditioned on outlook for central banks



HOUSING

U.S.: HOME SALES REMAIN DEPRESSED WITH LIMITED TAILWINDS

U.S. existing home sales remained near historic lows in 2024 (just over 4mn), as the rise in mortgage rates since early-2022 continued to impact affordability. Despite muted activity, home prices grew by \sim 5% in 2024, above the 10-year pre-pandemic average, but price growth decelerated in 2H24.

Over 2025-2026, the expected slowdown in GDP growth and employment, along with tariff-related uncertainty, may weigh on housing market activity. While tariffs weigh on jobs markets and household confidence, they will also pressure prices higher in key imported construction materials (from lumber to steel), thus pressuring new home prices higher—worsening affordability conditions.

An aggressive loosening of Fed policy may provide an offset, though material near-term cuts are unlikely amid upside price risks from tariffs. The support of lower rates on housing may be clearer in 2026.

CANADA: UNCERTAINTY PUMPS THE BRAKES ON SALES RECOVERY

Canada's housing resale market was on a recovery path for most of 2024 with sales trending up, but market conditions and prices stayed relatively unchanged as new listings also trended higher throughout most of this period. Housing sales have been declining since December 2024, essentially since the new U.S. administration announced its intention to slap steep tariffs on key partners.

With the U.S. escalating its protectionism in recent weeks, homebuying confidence will likely weaken further and new construction prices may be impacted by higher input costs.

The BoC was possibly eyeing an end to its rate cuts in the Q2, particularly given inflationary risks from tariffs, but the ramp-up in U.S. vs Canada and U.S. vs the world tariffs has introduced significant downside risks for North American economic growth, and with that rising odds of weaker labour markets and household spending.

While tight housing supply constraints could continue to drive up home prices in Canada, and there may continue to be willing buyers (especially with continued declines in mortgage rates), it remains to be seen what the medium-term impact (and duration) of tariffs will be on net housing demand.

US and Canadian consumer confidence falls to pandemic levels



Some relief in key Canadian rates, but not in the US



CANADA & U.S.

CANADA: TARIFFS POSE DOWNSIDE RISK TO GROWTH

Tariffs pose significant downside risks to Canada's growth outlook given the economy's tight interdependence with the U.S. The impact of tariffs will vary based on their duration and possible escalation from retaliatory measures.

Canada was spared from the Liberation Day announcements, while exemption for USMCA-compliant goods was extended indefinitely. A vast majority of Canadian goods can eventually become USMCA-compliant, according to government officials, thus limiting the direct impact on Canada. However, Canada faces potential indirect impacts from a slowing global economy and falling commodity prices.

The BoC is likely to play a secondary role in warding off a potential economic downturn, and we think they're likelier to react to an inflation shock than a growth shock – unless Canada enters a deep contraction.

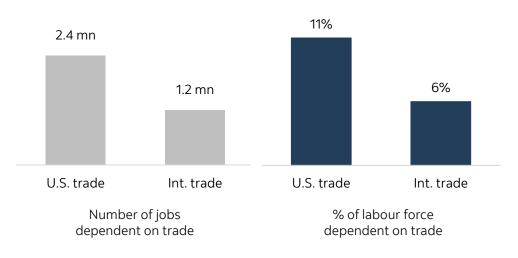
U.S.: AGGRESSIVE TARIFFS THREATEN TO DERAIL ECONOMIC MOMENTUM

GDP growth began 2025 on the wrong foot amid weather-related factors and a widening trade deficit on surging imports frontrunning tariff hikes. Temporary factors aside, a more protracted slowdown may be on the cards, driven by regressive trade policies that act as a tailwind for inflation and a headwind for growth.

Consumer and business sentiment has weakened, while equity markets have materially pulled back. Additional uncertainty could further weigh on sentiment and eventually show up in tangible data points, like GDP and employment. The rising potential for self-inflicted harm may require the administration to rethink its approach to trade.

Upside inflation risks are likely to keep the Fed cautious about future cuts. Although we believe the Fed is likely to reduce the policy rate this year, the pace and extent of future easing will be influenced by the U.S. administration's approach to trade.

Canada's reliance on trade



Tariffs prompt spike in inflation expectations



U.K. & EUROZONE

U.K.: MUTED GROWTH, NO BOE NOR FISCAL HELP IN STORE

The U.K. economy has broadly evolved as expected over the past few months as it remains on a soft growth path challenged by elevated interest rates and muted sentiment.

Luckily, the UK may not be significantly impacted by U.S. tariffs on their exports but could take a greater hit from the indirect shock of a U.S.-E.U. trade war. In any case, real GDP growth is likely to remain below-potential in 2025, only managing about a 1% pace for the year that is roughly on par with the 2024 expansion.

The BoE remains in a challenging position of below-potential growth but very stubborn inflation that is keeping them on a cautious policy path. Meanwhile, highly-limited fiscal bandwidth is unable to provide support – while it also hangs as a risk to businesses from the possibility of higher taxes.

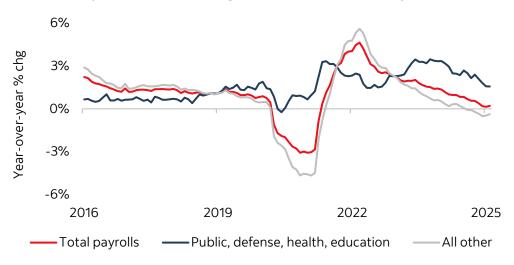
EUROZONE: FISCAL SUPPORT SQUARES UP TO TARIFF DANGERS

The growth outlook for the Eurozone has continued to worsen since the start of the year, as trade and geopolitical uncertainty presents a tougher path ahead for the bloc. Employment growth in the Eurozone has slowed to its weakest year-on-year pace since 2014 and business sentiment is weak.

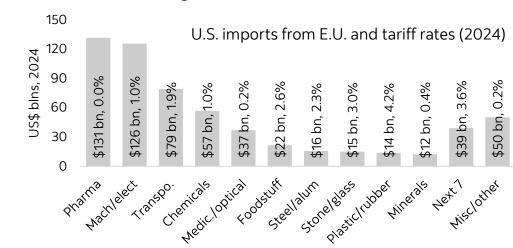
Additional ECB cuts, thanks to a continued slowing in inflation, may only manage to offset tariff risks related to hiring, investment, and consumption decisions. We expect the Eurozone to post sub-1% growth this year – much less if the U.S. imposes long-lasting hefty tariffs on E.U. autos and pharmaceuticals.

Germany's infrastructure and defense spending package, and what may follow from regional peers, should support Eurozone growth. That said, this boost is unlikely to be material in 2025 and may ultimately be overshadowed by trade headwinds.

U.K. payrolls are contracting outside of public and adjacent sectors



E.U. pharmaceuticals, machinery, and transportation are at greatest risk from U.S. tariffs



MEXICO & CHILE

MEXICO: LITTLE TO INSPIRE CONFIDENCE

There has been little to nothing to be excited about for Mexico's economy since the start of the year, as risks pile on and tailwinds vanish.

The worst could certainly be avoided on the tariffs front with the U.S., but the avoidance of an all-out trade-war would merely mean that Mexico's economy will not contract this year.

Mexico's economy is unlikely to break the 1% growth mark in 2025, despite the dovish efforts of Banxico (Mexico's central bank), with consumer and business confidence due to worsen, weak employment growth, and fiscal and remittances taps drying up.

At writing, we are assuming Mexico will reach some sort of resolution with the U.S. that still impacts growth but avoids all-encompassing 25% tariffs. The latter scenario would likely result in a recession in Mexico.

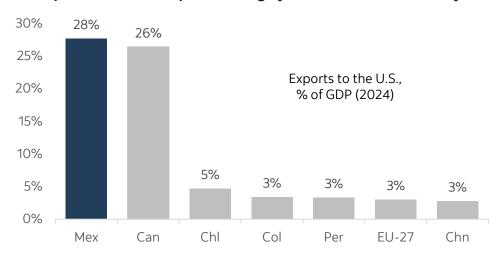
CHILE: ON A GLIDE PATH TO SOLID GROWTH, WITH SOME KINKS

Solid economic growth awaits Chile in 2025 with the help of a strong close to 2024 and relatively limited domestic headwinds. The international risk backdrop has not (yet, at least) had a material impact on the outlook for Chile's economy, but we're on the lookout for its effect on metals demand.

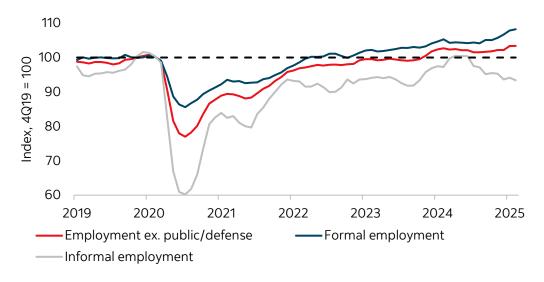
Although GDP growth should not materially accelerate in 2025, keeping around a 2.5% pace, the composition of this expansion is encouraging, as public spending takes a step back and private investment and household consumption step in.

Chileans have had to contend with a material acceleration in inflation over the past year, namely owing to electricity tariff hikes, that could limit consumption while keeping the central bank on a clear on-hold stance. The employment side of the economy is also still leaving something to be desired, which may limit GDP upside from household spending.

Exports to the U.S. represent roughly 30% of Mexico's economy



Chile's labour market may be turning the corner, with a better mix



COLOMBIA & PERU

COLOMBIA: SOLID RECOVERY AT RISK OF WEAK PUBLIC FINANCES

Colombia's economy is looking better, with broader-based gains across industries expected for this year, and early-2025 data already exceeding expectations. GDP growth should speed up by close to 1 percentage point this year, to a projected 2.6%.

On the flip side, various factors are pumping the brakes on this optimism. At home, on-hold BanRep (Colombia's central bank) policy amid high inflation and important fiscal risks may weigh on sentiment and growth. From abroad, U.S. protectionism and possibly weaker growth, alongside global financial market uncertainty, pose risks to Colombian assets and international trade.

Above all, fiscal risks are top of mind for investors, with Petro's government showing few to no signs of seeking to materially mend public finances. Colombia's household and business sectors will have to pull more than their own weight – if fiscal anxiety does not weigh materially on their plans.

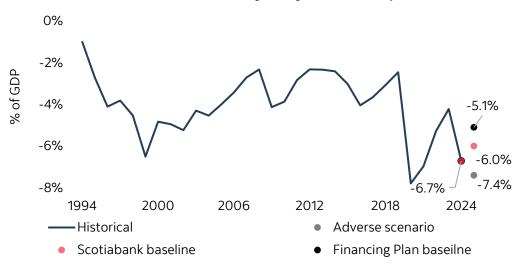
PERU: STRONG GROWTH, LOW INFLATION, BUT NOTHING IS RISK-FREE

Peru is in a 'goldilocks' moment of strong growth and low inflation, while looking relatively unrestrained by international developments that may be impacting some of its LatAm peers.

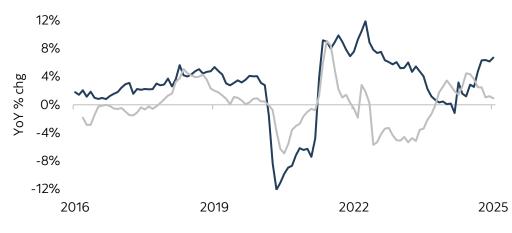
The country's current and expected outperformance in the region does not come as a surprise to us, as this has been our view for the regional economies for some time, but data in recent months are teeing up a wider growth gap between Peru and other LatAm economies.

'Goldilocks' aside, there are risks to the outlook that must be taken into consideration. Along these lines, the BCRP (Peru's central bank) may take its time going forward as it monitors external risks and eyes a reacceleration in inflation later in the year. Economic optimism may also be put to a test later in the year as economic players look more closely at the possible outcome of the April 2026 elections.

Colombia's deficit trajectory is in bad shape



Strong formal jobs creation alongside positive real wage growth in Peru



—— Formal private employment —— Real avg monthly wages (3 mth mov. avg)

JAPAN & CHINA

JAPAN: GROWTH AND INFLATION TRENDS POINT TO MORE BOJ HIKES

The Japanese economy closed 2024 on a solid note and GDP has expanded for three consecutive quarters. The data suggest the economy could withstand a further withdrawal of monetary stimulus. After hiking earlier this year, we believe officials will raise the target rate one more time this year.

Wage gains have been a key factor that has contributed to personal spending. Further wage gains could pave the way for the Bank of Japan to withdraw monetary stimulus as wagefueled inflation is the basis on which they are pursuing monetary policy normalization.

Business activity indicators are holding up but the 4Q24 decline in CAPEX, the first in over three years, warrants monitoring. Business investment could slow further in the wake of the White House announcing 24% tariffs on Japanese goods and 25% on auto imports.

CHINA: DOMESTIC SUPPORT AGAINST EXTERNAL DRAGS

China achieved its annual 5% growth target in 2024, helped by strong export activity as Chinese goods were competitively priced in the global marketplace amid a weaker yuan and low domestic inflation.

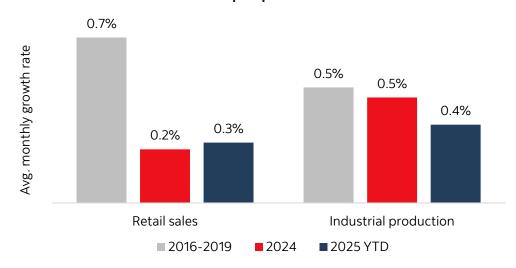
Looking ahead, the tailwind of external demand is likely to be less pronounced as outbound shipments weaken due to U.S. tariffs. A possible chilling in demand from key trading partners also impacted by U.S. protectionism, and a broader global slowdown, would further reduce demand for Chinese goods.

China continues to grapple with little to no inflation reflecting muted consumer dynamics and highlighting the need to kickstart the domestic economy through fiscal stimulus against challenging external conditions. Government measures include raising the 2025 budget deficit to 4% of GDP up from 3% in 2024, and a commitment to halting the property market downturn, among others.

Persistent inflation supports additional policy tightening from the BoJ



Chinese retail sales and industrial production growth have slowed from the pre-pandemic era



SOURCES

- Slide 4: Bloomberg Finance LP, Scotia Wealth Management
- Slide 5: Scotiabank Economics, Bloomberg Finance LP | Assumes 125% tariffs on China, 10% baseline tariffs for all other countries, and unchanged sectoral tariffs
- Slide 6: Bloomberg Finance LP, Scotia Wealth Management | Equities MSCI World Index, Fixed income Bloomberg Global-Aggregate Total Return Index. Data since 1991. #'s are instances of negative returns over varying time periods for a 60/40 balanced portfolio.
- Slide 7: Scotia Wealth Management | UW = underweight, N = neutral, OW = overweight Positioning represents current tactical asset allocation mix relative to strategic asset allocation. Domestic equities = Canada or Mexico.
- Slide 8: Bloomberg Finance LP, Scotia Wealth Management
- Slide 9: Bloomberg Finance LP. Scotia Wealth Management, Data as of March 31, 2025
- Slide 10: Bloomberg Finance LP. Scotia Wealth Management, Scotiabank Global Banking and Markets | U.S. dollar index (DXY) = index measuring USD performance against a basket of major currencies (EUR, JPY, GBP, CAD, SEK, CHF) | Short-term interest rate differentials are based on the 2-year overnight index swaps rate weighted by the DXY.
- Slide 11: Bloomberg Finance LP., Nanos Research, Univ. of Michigan, Scotia Wealth Management.
- Slide 12: Bloomberg Finance LP. Scotia Wealth Management,
- Slide 13: U.K. ONS, U.S. Commerce Dept. Scotia Wealth Management
- Slide 14: INE, U.S. Commerce Dept. Scotia Wealth Management
- Slide 15: Colombia Ministry of Finance, INE. Scotia Wealth Management
- Slide 16: Bloomberg Finance LP. Scotia Wealth Management

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