ETERNA FINANCIAL GROUP

MARKET REVIEW - FEBRUARY 2018

STATISTICS on 2018-02-28		
CANADA		
Unemployment (January)	5.90%	↑
C.P.I. (January)	1.70%	↓
3 months treasury bills CDA	1.15%	↓
Bonds CDA 5 years	2.05%	↓
Bonds CDA 10 years	2.24%	↓
S&P/TSX	15443	↓
UNITED STATES		
Unemployment (January)	4.10%	
C.P.I. (January)	2.10%	
3 months treasury bills US	1.65%	↑
Bonds US 5 years	2.64%	↑
Bonds US 10 years	2.86%	↑
Dow Jones - Industrial	25029	↓
S&P 500	2714	↓
CURRENCY		
$ US / $ CAN	0.7793	↑
$ US / € Euro	1.2194	↑
¥ Yen / $ USA.	106.68	↑

The arrow indicates the trend since the publication of the last monthly data or end of the month.

Volatility indices soared in early February for both equities and bonds. The month began as January ended, i.e. down for global stock markets and up for bond interest rates. Complacency in the face of interest rate changes has given way to concern over inflation. The Dow Jones flagship index closed at 23,860 on February 8, a 1,032-point decrease for this single day, which was preceded by a combined 1,840-point decrease on February 2 and 5. Since the peak of January 26, the decrease was therefore 10.3%. This represents what is generally called a correction. Indeed, the market later rebounded, and the index ended February at 25,029, still up from the beginning of the year. The S&P 500 yielded a total return of -3.7% in February, or +1.8% since the beginning of 2018. A new wave of optimism spread across markets mid-month, as companies continued to post good results. The excess generated by market participants since December has, to some extent, been corrected. However, not all stock markets went the same route; either the weakening was less significant or the rebound was smaller. Thus, compared to the end of December, most European and Asian indices are still in the red. In Canada, the S&P/TSX index posted a negative yield of 3.0% in February, or -4.4% in 2018; all sectors are down. It is a difficult start to the year for Canadian investors, as bond market yields are also negative, despite the fall in bond rates at the end of the month. The 10-year federal bond rates ended February at 2.24%. The FTSE-TMX index for Canadian bonds has lost 0.65% since December, even though it edged up 0.15% in February. Bond performances are generally negative by sector and maturity. Only bonds of less than 5 years maturity have stayed afloat since the beginning of the year. Since December, interest rates have risen in all maturities and credit spreads have also widened.

However, the economic situation has not changed. The global economy continues to grow and tax cuts should have an impact in the United States. Investors remain nervous about the inflationary threat. Labour shortages are high in many sectors and many expect increased wage costs over the next few months. In such a context, all of this makes sense. The fact is that, for the moment, inflation figures remain below central bank targets. Wages are rising as expected, particularly in Canada because of rising minimum wages. However, savings rates have declined over the last two years. In short, everything is currently guesswork because American and Canadian economic data are good without being spectacular. The figures published in February show a slowdown in home sales and U.S. manufacturing orders and anemic retail sales on both sides of the border. Several indicators seem to have weakened in recent months, but without major correction.

Our baseline scenario remains valid. The expansion will continue in 2018, at a moderate pace, and administered interest rates will increase predictably and reasonably. The overall environment remains conducive to corporate profitability, but we have also entered a new phase of the cycle where market volatility will be higher.

PERFORMANCE as of 2018-02-28	1 month	3 months	12 months
Bonds			
FSTE/TMX - 91 Day Tbill	0.11%	0.23%	0.68%
FSTE/TMX - Short Term	0.28%	-0.40%	-0.40%
FSTE/TMX - Mid Term	0.48%	-1.54%	-0.95%
Stock Market Indices			
CANADA - S&P/TSX	-3.02%	-3.23%	3.23%
USA - S&P 500	0.19%	2.25%	12.99%
MSCI - E.A.F.E.	-0.68%	1.18%	15.91%
$ CAN versus $ US	-4.19%	0.51%	3.53%

SOURCES: Bloomberg, TSX Group - Total Return, $ CAN

A COMMITMENT TO EXCELLENCE

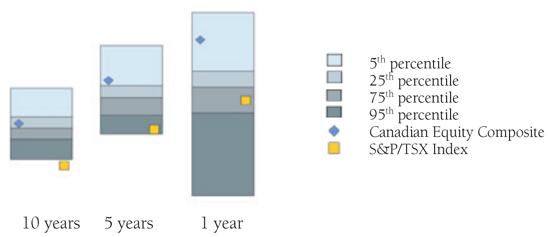
Over the years, Eterna Investment Management has delivered consistent investment performance to its clients.

We focus on a disciplined, long-term market-based approach to managing our clients' portfolios and rely on the in-depth expertise of our multi-disciplinary team of skilled analysts and managers.

Doing business with ETERNA means having a privileged partner for guidance, follow-up and personalized assistance for proper management of your assets.

Independence, integrity and discipline are among the core values of ETERNA.

Canadian Equity Composite



1st quartile for 5 years

11.8%

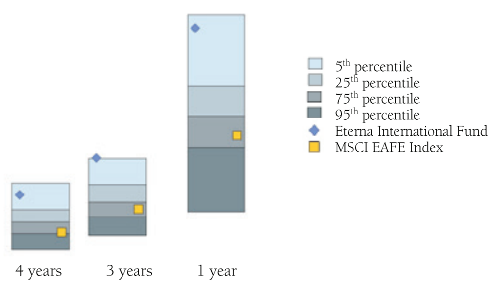
5-year annualized return

2.8%

Annualized value added compared to benchmark

Benchmark: S&P/TSX (total return)

Eterna International Fund



1st quartile for 4 years

16.04%

5-year annualized return

3.05%

Annualized value added compared to benchmark

Benchmark: EAFE (CAD)

The performance measures presented in this document relate to the Canadian Equity Composite and the ETERNA International Fund managed by Eterna Investment Management. Performance is calculated on gross basis of administrative, operating and management fees, and net basis of transaction fees. The Canadian Equity Composite only includes discretionary managed client accounts managed by Eterna Investment Management, which are unrestricted and have a minimum of $300,000 of directly held Canadian equity. Past returns are not necessarily indicative of future returns. This document shall in no way be considered or used for offer to purchase fund units or other securities.

* Comparative benchmarking of peer returns is provided by Pavilion Advisory Group Ltd. Comparative universes are the Pavilion – Canadian Value Equity – Universe and Pavilion – EAFE All Equity – Universe, as the case may be.

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