ETERNA
FINANCIAL GROUP

MARKET REVIEW - JANUARY 2018

STATISTICS on 2018-01-31		
CANADA		
Unemployment (Dec.)	5.80%	↓
C.P.I. (December)	1.90%	↓
3 months treasury bills CDA	1.20%	↑
Bonds CDA 5 years	2.08%	↑
Bonds CDA 10 years	2.29%	↑
S&P/TSX	15952	↓
UNITED STATES		
Unemployment	4.10%	
C.P.I. (December)	2.10%	↓
3 months treasury bills US	1.46%	↑
Bonds US 5 years	2.51%	↑
Bonds US 10 years	2.71%	↑
Dow Jones - Industrial	26149	↑
S&P 500	2824	↑
CURRENCY		
$ US / $ CAN	0.8121	↓
$ US / € Euro	1.2414	↓
¥ Yen / $ USA.	109.19	↑

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

Stock markets began 2018 on a high note, as indices climbed rapidly from the very first trading sessions. The U.S. Dow Jones index had already gained 576 points on January 4, then 1000 points on January 12, and continued to rise almost uninterrupted until January 26. The U.S. market provided more than attractive returns, as the S&P 500's total return index gained 5.7% during the month. A certain euphoria seized stock markets following the passage of tax reform and tax cuts in the United States. Optimism was ubiquitous early in the year and analysts revised corporate earnings forecasts upwards in a context of low interest rates and sustained economic growth worldwide. Emerging markets continued to perform best and most developed markets posted gains, but London and Toronto declined.

The Canadian market did not follow its southern neighbour, as the Toronto S&P/TSX fell from the record high of January 4 to end the month with a negative return of 1.4%. Most sectors fell, with the energy and industrial sectors losing 5.5% and 1.8%, respectively. However, oil prices continued to rise globally, but western Canadian oil did not keep pace, as it is not very exportable due to the lack of pipelines. Financials stagnated, with banks advancing 1.4%, as insurers and capital market firms posted declines. The interest related sectors have not done well. While the Canadian GDP stalled in October, figures released at the end of January show a 0.4% rebound for the month of November, as all Canadian statistics remain good. Inflation declined 0.4% in December and posted a very reasonable increase of 1.9% year-over-year. The Bank of Canada raised its rates by 25 basis points, setting the discount rate at 1.5%. The Bank indicates that any new measures will be tied to changing economic conditions and mentions consumer indebtedness and uncertainty about the NAFTA negotiations as determining factors.

Bond markets also reacted strongly; interest rates went up almost everywhere and markedly. As a result, U.S. and Canadian 10-year bond rates rose 30 and 25 basis points respectively. Canada's ten-years ended the month at 2.30%. This was the case for all maturities, but very long-term rates have risen less. Bond indices also saw negative returns in January, with the FTSE-TMX index for Canadian bonds losing 0.8%, while corporate bonds fared better, losing only 0.3% and 0.1% in long and short maturities, respectively. Consequently, January was difficult for the Canadian investor. From a technical standpoint, stock market indices reached value-rich levels and some lull seems to be taking place. The rapid rise in bond rates was certainly the key event in January, as it changed the relative picture of markets and sectors. Volatility, which had been dormant until now, resurfaced. As we wrote some time ago, the year 2018 will be challenging for the investor. Although economic conditions remain favourable, the markets had already expected a lot of good news.

PERFORMANCE as of 2018-01-31	1 month	3 months	12 months
Bonds			
FSTE/TMX - 91 Day Tbill	0.08%	0.19%	0.60%
FSTE/TMX - Short Term	-0.22%	-0.55%	-0.35%
FSTE/TMX - Mid Term	-1.13%	-1.40%	-0.36%
Stock Market Indices			
CANADA - S&P/TSX	-1.40%	0.26%	6.67%
USA - S&P 500	3.95%	5.23%	19.42%
MSCI - E.A.F.E.	3.26%	2.97%	20.55%
$ CAN versus $ US	2.04%	4.45%	5.49%

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

What does a portfolio manager do?

A portfolio management company, such as Eterna Investment Management, is a company with expertise in investment management. As such, it offers investment management services on a discretionary basis. Its activities are subject to constant scrutiny from the Autorité des marchés financiers, the body responsible for supervising Québec's financial sector.

A portfolio manager establishes, in conjunction with their client, a personalized investment policy in relation to their needs and objectives, financial situation, risk tolerance, and related knowledge. The manager then builds a customized portfolio while ensuring the suitability of each operation vis-à-vis the policy developed. Subsequently, they make daily management decisions within the required framework of their client's investing profile. In addition, they must measure, evaluate and report on their performance to the client on a regular basis.

Why retain the services of a portfolio manager?

Investing in financial markets can be a great way to achieve your investment goals. However, financial markets are complex and require a significant amount of time and efforts. This explains why more investors mandate professionals to manage their assets on a daily basis. Representatives employed by the portfolio manager must meet rigorous criteria regarding their background, education and experience, which are among the highest in the Canadian investment industry.

What distinguishes the portfolio manager from other participants in the investment market?

The fundamental difference between an organization offering portfolio management services and other investment market players (e.g., investment dealers or mutual fund brokers) is that the portfolio manager is the only one who can accept a mandate to manage their client's assets on a discretionary basis. Other stakeholders must act according to their clients' instructions. As a result, the portfolio manager, who has the latest knowledge and tools, is in an optimal position to make informed decisions about their client's portfolio. This allows them to react quickly to any situation that may arise within markets and not miss any opportunity.

In addition, unlike some other market participants, the portfolio manager's mode of compensation ensures they act in the best interests of their client. Their fees represent a fixed percentage of portfolio value and are in no way influenced by the number of transactions made. Consequently, their compensation is based on portfolio value, which means greater compensation for portfolio increase, and lesser for portfolio decline.

Who has custody of your investments?

The portfolio manager cannot have custody of the financial assets they manage on behalf of their clients. Only a financial institution, such as Eterna Trust, which meets high capitalization requirements and has significant insurance against fraud, may act as custodian of securities. It holds its clients' securities, equities and cash in trust and carries out transactions according to the instructions it receives. It must keep the securities, equities and cash received on behalf of each client separately from its own property and keep records accordingly. All this is to preserve the property, security and individualization of each client's assets.

Auditors of Eterna Financial Group

PwC is the accounting firm responsible for auditing the companies of Eterna Financial Group. Their globally recognized expertise in the financial sector provides management and clients with the assurance that the procedures and other controls in place are adequate to ensure asset security.

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