ETERNA FINANCIAL GROUP

MONTHLY NEWSLETTER — MAY 2020

COMMENTS FROM FIXED INCOME MANAGERS

Market performance in May was particularly satisfying. The Canadian S&P/TSX Index returned 3.0%, while the U.S. market returned 3.8% in Canadian dollars. As a result, the year-to-date drop in the indexes is now only 5.0% in the United States and 9.7% in Canada. The smallest capitalizations distinguished themselves, while the top performers were the technology and consumer discretionary sectors. Financials and real estate stocks lagged. Stock market investors are in "anticipation" mode, overlooking the current economic situation and expecting an upswing in activity over the next few months.

The bond market appears to be much more concerned about the global recession. Bond interest rates have remained in a narrow range in May, with Canadian rates declining slightly. Two-year Canadian rates closed the month at 0.29%. The FTSE Canada Universe Bond Index returned 0.3% in May. Central banks are continuing to support liquidity in credit markets and there was no particular pressure over the past month.

As the recession rages on, Canadian real GDP fell 8.2% at an annualized rate in the first quarter. The second-quarter forecast is no better. With the economy grinding to a forced halt, unemployment has risen to record levels. The figures for May are expected to be the worst so far. It remains to be seen how de-confinement, which has begun virtually everywhere in the world, will be reflected over the next few months in terms of real activity and recovery of lost wages.

Michel Pelletier, Vice-President and Senior Fixed Income Manager

Bobby Bureau, Fixed Income Analyst and Assistant Manager

QUESTION FROM OUR CLIENTS

We were asked to assess the impact on inflation of the forced economic shutdown in the COVID-19 situation. First, let us clarify the concept. Inflation is a general and sustained increase in prices. By prices, we mean all prices, not just consumer prices, but all prices traded in the economy. Nor is it a relative increase in prices. For example, some prices go up, such as gas at the pump, while other prices come down, such as clothing. For that reason, indexes such as CPI are a basket of different goods and services. A recession has a depressing effect on inflation. In the worst case, they can even cause deflation, or a generalized drop in prices. The current crisis is no exception, and annual inflation in Canada has declined drastically, with the 12-month CPI increase falling from 2.4% in January to -0.22% in April. In fact, prices actually slipped in March and April.

We believe that the short- to medium-term outlook is for relatively low inflation. Demand will take some time to recover. However, the global production output is intact. Nothing has been broken and many countries are eager to export at highly competitive prices. Of course, some prices will increase, probably temporarily, but others will come down. If we underestimate headline inflation in our scenario, remember that higher prices penalize consumers, producers and creditors. Excessive inflation slows the economy. This is why central banks maintain monetary policies that target a relatively steady inflation rate at around 2 percent.

Central banks are currently involved in the creation of money, which is only effective if channelled into productive activities. In this period of deep recession, much of its supply is likely to be diverted to non-productive activities, such as repayment of corporate and household debt. After this period, the increase in the monetary supply may lead to inflation if corresponding output or wealth does not increase. The reason: more money circulates for every unit of goods and services produced in the economy. In summary, the current concerns are legitimate, because food prices have recently risen and many businesses are warning of higher operating costs after de-confinement. It is highly likely that, for many businesses, operating margins will be under pressure. Overall, macroeconomic inflation is expected to remain low even after the crisis, returning to the relative target of 2%. However, global overcapacity and demographics continue to be the factors with the most long-lasting effects.

Michel Pelletier, Vice-President and Senior Fixed Income Manager

Bobby Bureau, Fixed Income Analyst and Assistant Manager

STATISTICS ON 2020-05-31

CANADA		
Unemploy. rate (April)	13 %	↑
C.P.I. (April)	-0,2 %	↓
3 months treasury bills	0,19 %	↓
Bonds 5 years	0,40 %	↑
Bonds 10 years	0,53 %	↓
S&P/TSX	15 193	↑

UNITED STATES		
Unemploy. rate (March)	14,7 %	↑
C.P.I. (March)	0,3 %	↓
3 mths treasury bills	0,12 %	↑
Bonds 5 years	0,30 %	↓
Bonds 10 years	0,65 %	↑
Dow Jones - Industrial	25 383	↑
S&P 500	3 044	↑

CURRENCY		
$ USA / $ CAN	0,73	↓
$ USA / € Euro	1,11	↓
¥ Yen / $ USA	107,83	↓

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

COVID-19 UPDATE

Dear clients, these have been challenging months for all of us and we are proud to have been there to support you through these difficult times. Although the situation is slowly returning to normal, we must keep in mind that COVID-19 is still present in our environment and we must remain vigilant.

This is why we wish to uphold the policy of not receiving clients at our offices, except in urgent and unavoidable situations. Furthermore, the doors of the building in which our premises are located will remain locked until further notice by the landlord. If you absolutely must come to our offices, there are certain guidelines in place to protect you and our employees.

When **you** must come to our offices, you have to:

- Arrange an appointment with your manager, who will be the only person authorized to be in contact with you;
- Make sure that you have not had any contact with people with COVID-19 symptoms;
- Make sure that you do not have any COVID-19 symptoms yourself;
- Wait near the entrance for your manager to greet you at the reception desk and escort you to the meeting room. Your manager will make sure that the room is disinfected before and after the meeting. We recommend that you wear a facial covering or mask for the duration of the meeting;
- Make sure you have all the necessary papers for your appointment before you arrive. If you need copies, your manager will make them himself/herself.

We would like to point out that we have all the necessary technology at our disposal for telephone and video conference meetings. If you have any concerns or would like to talk with us, do not hesitate to contact your manager, who will be pleased to assist you and answer any questions you may have.

You can count on us!

The Eterna Team

Market Indices in Canadian Dollars as of May 31, 2020

	1 month	YTD	1 year	2 years[1]
FTSE/TMX - 91 Day Tbill	0,05 %	0,61 %	1,73 %	1,65 %
Bonds				
FTSE Canada Universe Bond Index	0,31 %	2,75 %	7,05 %	7,03 %
FTSE Canada Short Term Overall Bond Index	0,28 %	2,43 %	4,07 %	4,12 %
Eterna Adapted Private Wealth Index [2]	0,33 %	3,12 %	5,46 %	5,54 %
North American Stock Indices				
Canada - S&P/TSX Composite	3,04 %	-11,24 %	-2,11 %	0,43 %
USA - S&P 500	3,85 %	-0,82 %	15,20 %	11,71 %
USA - Dow Jones Industrial Average	3,74 %	-5,33 %	7,02 %	7,81 %
International Stock Market Indices				
MSCI net World	3,91 %	-2,33 %	9,03 %	6,53 %
MSCI - EAEO 2	3,44 %	-8,64 %	-0,78 %	-1,20 %
Currencies				
$ CAN versus $ U.S.	1,23 %	-3,91 %	-1,88 %	-3,01 %

Source : Bloomberg

1. Annual compounded total return.
2 The Eterna Adapted Private Wealth Index is made up of 60% of FTSE Canada Short Term Overall Bond Index and of 40% of FTSE Canada Mid Term Overall Bond Index.

ETERNA FINANCIAL GROUP

MONTRÉAL
2000 McGill College Ave, Suite 2210
Montréal (Quebec) H3A 3H3

Tel.: 514 908-6000
Fax: 514 908-6001

QUÉBEC
801 Grande Allée Ouest, Suite 210
Québec (Quebec) G1S 1C1

Tel.: 418 692-9292
Fax: 418 266-1002

TROIS-RIVIÈRES
25 des Forges Street, Suite 380
Trois-Rivières (Quebec) G9A 6A7

Tel: 819 378-7186