

**MONTHLY NEWSLETTER – AUGUST 31, 2021**

Amidst growing concerns about a fourth wave of COVID-19, stock markets remain on track. Indeed, the Canadian stock market finished the month with a gain of 1.6%. In the U.S., the broad S&P 500 index gained 3.0% in U.S. currency and 4.3% in Canadian currency. The USD appreciated 1.1% during the month to close at USD/CAD 1.26.

Not surprisingly, stock markets are hitting new highs, while the U.S. stock market volatility index (VIX) is currently at a historic low. This indicates that stock market investors are complacent about the current situation.

Conversely, the bond market is more concerned about the potential economic impacts of a fourth wave of COVID-19. The FTSE Canada Universe Bond Index was down 0.12% in August. Longer-term bonds experienced the most disappointing

performance, with the Provincial Bond Index losing 0.49% on the back of widening credit spreads.

On the economic front, we saw a few standouts. American consumers are concerned about the spreading Delta variant. The University of Michigan's consumer confidence survey showed a sharp decline compared to the previous month, dropping the index to its lowest level since December 2011.

The latest report from the Federal Reserve Board meeting reveals a willingness among members to eventually reduce their asset purchase programme before year-end. However, it's clear that reducing asset purchases doesn't indicate an imminent rise in policy rates. The President of the U.S. Federal Reserve confirmed this during a speech in Jackson Hole. Mr. Powell stated that the U.S. Central Bank will begin

tapering its bond-buying programme later this year, but is unwilling to tighten monetary policy prematurely, even with rising inflation in mind.

On the inflation front, the consumer price index was up by 0.4% in July, for an annual variation of 4.2%, the highest level since 1991. This is the fifth consecutive monthly increase. Central bankers still maintain that this surge in inflation is transitory and expected to return to the 2% range before long.

In Canada, real GDP shrunk by 1.1% in the second quarter of 2021, well below expectations for a 2.5% gain. The 15% drop in exports dealt a major blow to Canadian economic growth.

**Bobby Bureau**, Fixed Income Analyst and Manager

**STATISTICS ON AUGUST 31, 2021**

CANADA			UNITED STATES			CURRENCIES		
Unemploy. rate (July)	7.5 %	↓	Unemploy. rate (July)	5.4 %	↓	\$ USA / \$ CAN	0.79	↑
C.P.I. (July)	3.7 %	↑	C.P.I. (July)	5.4 %	—	\$ É.-U. / € Euro	1.18	↑
3 months treasury bills	0.17 %	↑	3 months treasury bills	0.036 %	↓	¥ Yen / \$ USA	110.02	↓
Bonds 5 years	0.84 %	↑	Bonds 5 years	0.78 %	↑			
Bonds 10 years	1.22 %	↑	Bonds 10 years	1.31 %	↑			
S&P/TSX	20 583	↑	Dow Jones - Industrial	35 361	↑			
			S&P 500	4 523	↑			

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

**ETERNA'S NEW FUND**

We were pleased to introduce the **Eterna Small-Cap Fund** during the second quarter. Managed by Philippe Côté, Co-Manager of the Eterna Quebec Equity Fund and Director of Research, this fund will follow Eterna's fundamental approach. The fund manager's objective is to select future Canadian flagships from the range of publicly traded stocks

in Canada with a market capitalization of less than C\$6 billion. The portfolio will consist of 35 to 50 quality companies that match key investment criteria established by our research team, such as a positive and dynamic sector theme, market consolidation opportunities, a healthy balance sheet, a solid and experienced management team, feasible financial targets

and a precise development strategy. We routinely meet with company executives and participate in industry conferences, rounding out our extensive research and financial models produced for each portfolio company.

With this approach, the Fund has hit the ground running, with a first-quarter net return of 10.8%, even though the S&P/TSX

SmallCap Index dropped by 1.9% in the same period, which, we should point out, involves companies smaller than the ones included in our Fund, and overexposure to the materials and energy sectors, which is not our favoured approach.

To illustrate the investment philosophy of this new Fund, consider the following three examples of stocks in the portfolio:

**1- ParkLawn Corporation:** A funeral service company, ParkLawn expanded in recent years through acquisitions of similar companies in the United States. Now North America's second-largest player, but with only an estimated 2% market share, ParkLawn is focused on further consolidating this fragmented market, while continuing to benefit from

a stable industry profile. The company trades at reasonable valuation multiples. The management team is well known for its in-depth market knowledge, and has been in the industry for decades.

**2- Canadian Western Bank:** Historically known as the Bank of the West, CWB has enjoyed recent growth in Ontario and now has 36% of its loans coming from provinces east of Alberta. As a bank focused primarily on the commercial sector, CWB is growing faster than other Canadian banks, but trades at valuation metrics that are lower than all of them.

**3- I B I Consulting:** This engineering and architectural firm was founded in 1974 and now has 3,000 employees in 60 offices on 6 continents. The company

has specialized in urban environments and offers its clients a growing number of intelligence services. The company is trading at a steep discount compared to its peers, despite similar growth, primarily due to its smaller size.

The Eterna Small-Cap Fund is an excellent complement to your traditional Canadian equity assets and offers you the possibility of disciplined exposure to promising Canadian companies. For more information, or if you have any questions about this new fund, we encourage you to contact your private manager.

**Philippe Côté**, Vice-President and Portfolio Manager

#### MARKET INDICES IN CANADIAN DOLLARS AS OF AUGUST 31, 2021

	YTD	3 months	6 months	1 year	3 years*	5 years*
FTSE Canada 91 Day TBill Index	0.09 %	0.04 %	0.09 %	0.14 %	1.05 %	0.94 %
<b>BONDS</b>						
FTSE Canada Universe Bond Index	-2.59 %	1.87 %	1.05 %	-1.67 %	4.47 %	2.63 %
FTSE Canada Short Term Overall Bond Index	-0.09 %	0.23 %	0.59 %	0.55 %	3.14 %	1.99 %
Indice adapté gestion privée Eterna <sup>1</sup>	-0.71 %	0.89 %	1.15 %	0.09 %	3.94 %	2.30 %
FTSE Canada Mid Term Overall Bond Index	-1.66 %	1.89 %	1.99 %	-0.61 %	5.12 %	2.76 %
FTSE Canada Long Term Overall Bond Index	-6.33 %	3.96 %	0.84 %	-5.18 %	5.63 %	3.27 %
<b>NORTH AMERICA STOCK MARKETS \$ CAN</b>						
Canada - S&P/TSX	20.16 %	4.99 %	15.50 %	28.24 %	11.58 %	10.40 %
États-Unis - Standard & Poor's 500	20.22 %	12.77 %	18.71 %	26.98 %	16.75 %	17.11 %
États-Unis - Dow Jones	15.74 %	7.47 %	14.62 %	22.73 %	12.06 %	15.68 %
<b>INTERNATIONAL STOCK MARKETS \$ CAN</b>						
Royaume-Uni - FTSE-100	12.83 %	3.76 %	10.08 %	22.91 %	3.30 %	5.12 %
France - CAC-40	14.93 %	4.67 %	13.71 %	29.22 %	6.74 %	8.91 %
Allemagne - DAX	9.67 %	3.73 %	11.51 %	17.06 %	8.03 %	8.76 %
Japon - Nikkei-225	-4.96 %	1.38 %	-6.59 %	13.08 %	6.25 %	8.49 %
Hong Kong - Hang Seng	-6.31 %	-7.32 %	-11.55 %	-0.84 %	-3.26 %	1.56 %
Australie - S&P/ASX 200	7.49 %	4.00 %	6.18 %	19.08 %	5.45 %	5.34 %
<b>CURRENCY</b>						
USD versus CAD	-0.86 %	4.58 %	-0.96 %	-3.30 %	-1.10 %	-0.76 %

\* Annual compounded total return.

<sup>1</sup> 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.ada.

Source : Bloomberg