ETERNA FINANCIAL GROUP

QUARTERLY REVIEW – JUNE 2021

ASSET SUMMARY AND ALLOCATION

Stock markets have carried their momentum into the second quarter and have hit new highs. Corporate profits are up and there is ample liquidity. The central banks have announced that they have no intention of raising interest rates for several quarters. The Canadian S&P TSX Index was particularly generous since the beginning of the year, with a 17.3% total return, including 8.5% in the last three months. The energy, technology and real estate sectors were strong performers in the last quarter. Meanwhile, oil prices are up nearly 25% since March and almost 55% since last December. The U.S. indices are on the upswing, with S&P 500 returning 8.5% for the quarter, or 7.1% in Canadian dollars. Support for the loonie comes from higher oil prices and credit spreads with the U.S.

Both short- and medium-term interest rates came under some pressure. The Canadian two-year rates jumped almost 25 basis points, which flattened the yield curve, while the longer-term rates decreased. Bond indices delivered positive second-quarter results, with the FTSE Canada Universe Bond Index returning 1.6%, and long-term provincial bonds returning 4.2%.

The challenges are the same as at the end of the first quarter: the race between vaccination and COVID variants, expectations of inflation and the impending termination of support programs for the unemployed and businesses in the fall. The global economic situation is diverse, with China undergoing a planned slowdown, while U.S. growth is bolstered by stimulus spending programs enacted earlier this year. We are confident that the bullish cycle will continue.

- **Vaccination and support programs are driving robust expansion in North American economies, but the global landscape is not homogenous, with vaccination levels differing from region to region and variants remaining strong.**
- **As expected, inflation has been higher in recent months. Many consider this a temporary phenomenon stemming from last year's price drop, but some of this is expected to persist, considering the unprecedented increases in the money supply.**
- **Stock market indices have hit new highs in recent months.**
- **Stock market multiples are high and rising interest rates could drive them back down. However, corporate profits are up.**
- **We continue to maintain our market exposure and we believe that the Canadian stock exchange could be favoured.**
- **Although certain maturities could see higher interest rates, it is possible that the interest rate structure will remain low for a while longer.**

ECONOMY AND FIXED-INCOME SECURITIES

The Chinese authorities appear to be succeeding in curbing credit excesses at home, leading to a welcome growth slowdown in the country. An upsurge of the Delta variant in Europe and Asia has authorities scrambling to respond as the second dose of vaccine is overdue in many parts of the world. In North America, government support programs for the unemployed and businesses will terminate this fall in the U.S. and Canada. Household consumption is critical to economic growth and one question is whether household consumption patterns will be sustainable and robust. Experience suggests U.S. consumers were active during the months in which stimulus cheques were issued, but less so in other months as their disposable incomes were hard hit by the lack of liquidity. The expectation is that the unemployed will return to work once support programs expire, which will be confirmed in the coming months. The strength of the American economic rebound may wane somewhat, which is normal.

Bond interest rates opened the quarter on an upward trend and started to fall again in mid-May. For reference, 30-year federal rates reached 2.20% in mid-May after hitting 1.90% in early April, and then closed at 1.84% in late June. A similar phenomenon is occurring in the United States. The yield curve is flattening, while shorter-term rates such as the two-year are moving up and longer-term rates have fallen compared to the end of March. This market development may be surprising to many, as most concerns focused

STATISTICS ON JUNE 30, 2021

CANADA		
Unemploy. rate (May)	8.2 %	↑
C.P.I. (May)	3.6 %	↑
3 months treasury bills	0.14%	↑
Bonds 5 years	0.98 %	↑
Bonds 10 years	1.39 %	↓
S&P/TSX	20 166	↑

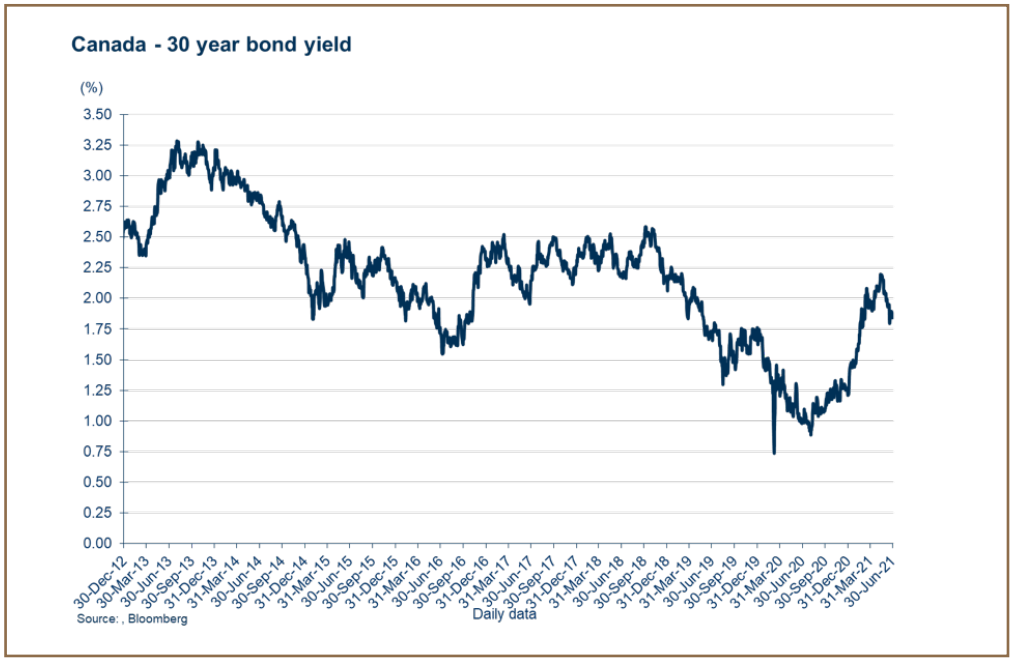
ÉTATS-UNIS		
Unemploy. rate (May)	5.8 %	↓
C.P.I. (May)	5.0 %	↑
3 mths treasury bills	0.04 %	↑
Bonds 5 years	0.89 %	↑
Bonds 10 years	1.47 %	↓
Dow Jones - Industrial	34 503	↓
S&P 500	4 298	↑

DEVISES		
$ USA / $ CAN	0.81	↑
$ USA/ € Euro	1.19	↑
¥ Yen / $ USA	111.11	↓

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

on inflation, but the recent rise in inflation rates is viewed by bond market players as temporary, a reflection of the abrupt reopening of the economy and distortions in supply and distribution chains. Central banks also believe this, and may reduce their securities purchase programs over the next few quarters, although they have no intention of raising administered rates for some time. With the substantial first-quarter decline in the bond market, many investors saw this as a buying opportunity, with large pension funds' intent on increasing their fixed income exposure. The bond indices were positive in the second quarter, with FTSE Canada Universe Bond Index returning 1.6% and the best performance coming from long-term provincials at 4.2%. The 60% one- to five-year and 40% five- to ten-year maturities generated 0.7%. The performance of provincial bonds could be explained by credit spreads that narrowed over the quarter, while corporate bonds remained stable. Overall, spreads remained very narrow and are expected to widen again in the coming quarters.

The challenges continue to be essentially the same as those at the end of the first quarter: i.e., immunization versus variants, potential inflation and post-support programs. We believe that there will be some persistent increase in inflation, as money supplies have risen to unprecedented levels. At the same time, a recovery in global trade is expected to mitigate these pressures in 2022. The Biden administration's fiscal stimulus will shift from large stimulus in 2021 to restraint in 2022. It is also likely that governments will be in "spending review" mode in 2022. It will be difficult for the Central Bank to raise rates in this climate. In terms of employment, losses to be recovered are primarily in the restaurant, hotel and entertainment sectors, but these account for a small portion of U.S. and Canadian GDP, even if they absorbed the majority of job losses.



From a cross-market perspective, the dramatic increases in equity indices could suggest that a temporary correction is possible. We de-risked our bond portfolios at the end of the quarter, reducing duration near benchmarks and shifting overexposure from mid-term to short-term corporates. We will continue to be on the alert in this historical context and are prepared to move quickly in response to changing circumstances. However, interest rates may not increase as dramatically as some believe, considering all the above-mentioned factors. Whatever the scenario, history shows that increases in inflation and interest rates are never desirable.

Michel Pelletier, Vice-President and Senior Fixed Income Manager

Bobby Bureau, Fixed Income Analyst and Manager

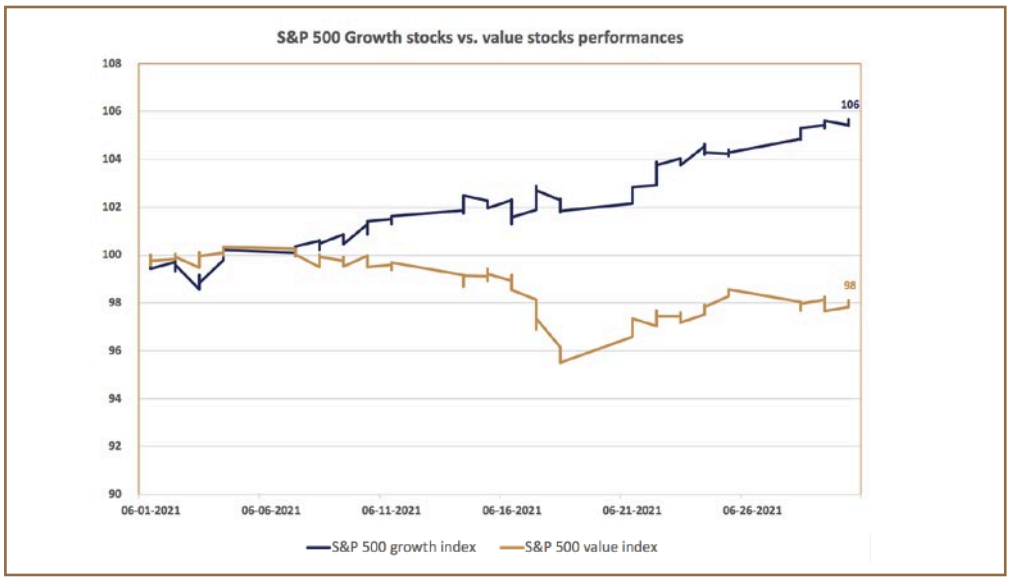
NORTH AMERICAN STOCK MARKET

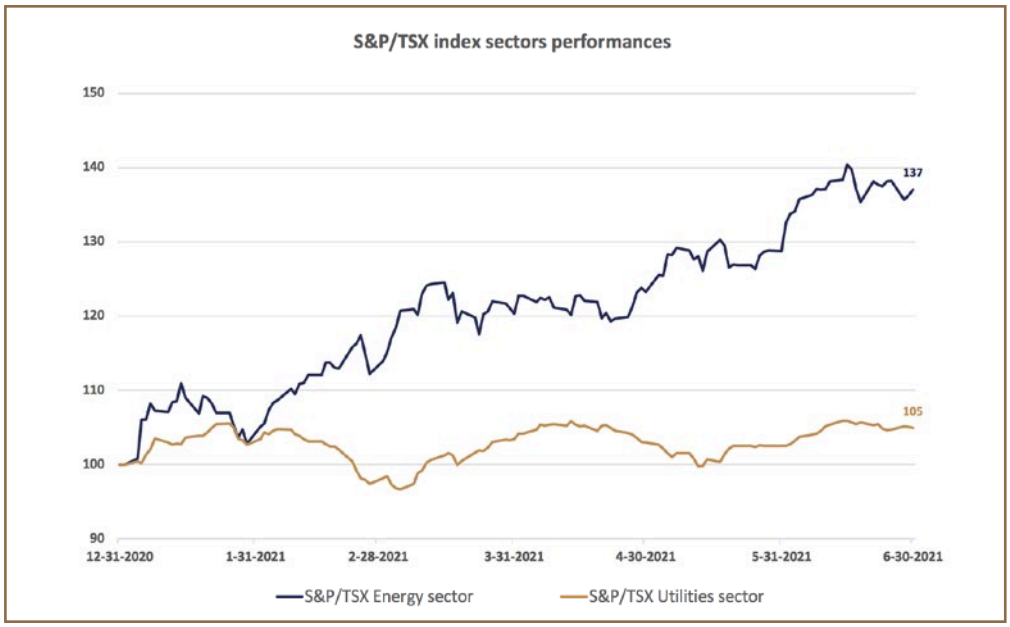
The second quarter of 2021 was definitely strong for the Canadian market. The S&P/TSX Index set a new record in June, finishing above the 20,000 mark for the first time in its history and delivering a total return of 8.6%. The information technology, energy and real estate sectors propelled the index with respective returns of 23%, 13.9% and 10.7% over the past three months. In fact, only Health Care, where the majority of companies operate in the cannabis sector, performed negatively for the same period (-11.6%). The top-performing Canadian stocks in the portfolios were Russel Metals Inc. (37.1%) in the industrial products sector, First Quantum Minerals LTD (19.3%) in the materials sector, and Canadian Natural Resources (17.1%) in the energy sector.

A similar picture emerged south of the border, where the same sectors dominated second-quarter performance and the overall S&P 500 Index had a total return of 7.1%. Technology stocks (10.1%) finally bounced back after a stagnant first quarter, and Energy (9.8%) and Real Estate (11.6%) maintained their momentum from the beginning of the year. Real estate and energy stocks underperformed in 2020, and utilities stocks heavily concentrated in renewable energy underperformed by 1.71%. The strengthening of the CAD versus the USD contributed negatively to the performance of the U.S. stock market, reducing returns by 1.3%. The U.S. stocks held in the portfolios with the best quarterly performance all belong to the information technology sector: Alphabet (19.9%), Facebook (19.45%) and Microsoft (13.5%).

After a full year in which the value management style outperformed the growth approach, the past two months indicate enthusiasm among growth investors. The graph opposite compares the performance of these two investment approaches.

Another example of how corporate earnings growth is a key factor for investors right now is the performance gap between the energy (fossil fuels) and utilities (renewable energy) sectors. The world's largest pension funds shedding their oil company investments, the craze for ESG assets and new regulations, including one that will prohibit the sale of





new gasoline-powered vehicles as early as 2035, are all factors that may suggest Utilities will perform well. However, weak near-term earnings growth in this sector and oil prices have caused Energy to supplant Utilities in the second quarter. We view this as a temporary situation, however, and are confident that the energy transition will be profitable for the utilities sector in the long run.

Jean Duguay, Senior Vice-Chair, Senior Manager and Co-Chief Investment Officer

Mickael Carrier, Analyst

INTERNATIONAL EQUITIES

One of the greatest investors of the last century was John Templeton (Money magazine in 1999 called him «arguably the greatest global stock picker of the century"). Towards the end of his, career he observed:" In all my 55 years on Wall Street I was never able to say when the market would go up or down. Nor was I able to find anybody on Earth whose opinion I would value on the subject of when it would go up and down".

This is a very important lesson for every long-term oriented investor in the stock market. Although there is a rich collection of people pretending to know what will happen next, think of strategists, economists and even portfolio managers the unforgiving truth is that on average their forecasts are as useful the information one gets from a horoscope. In both cases simply tracking their respective predictions over an extended period of time (e.g. three years and more) will make the futility of their services obvious. Unfortunately, their typical outlets, i.e. print and digital media have no incentive to engage in this exercise because attention grabbing statements sell better than due diligence.

The inability to forecast short term market fluctuations however is no reason not to invest in the stock market, quite the opposite. Consider this: The oldest living person on planet Earth is Kane Tanaka, born 2 January 1903 in the village of Wajiro (now part of Higashi-ku, Fukuoka, Japan). She was almost one year of age when the Wright brothers flew their first prototype of an airplane in December 1903. Kane has the delightful privilege to still be around this year when the first helicopter was launched on Mars on March 20, 2021. Give the following a deep thought: Within the span of one lifetime humanity went from its first bumbling attempt to overcome gravity to launching a helicopter on Mars. This is awe inspiring!

And it is this kind of progress that allows stock market investors to accumulate wealth over time. It is the daily relentless grind of your portfolio companies to launch new products, improve existing ones, enter or invent new market segments while driving production costs down and finding better solutions to logistical and supply chain problems. Each

of these initiatives is tiny and usually does not end up on page one of your newspaper but the accumulation of these steps leads to exponential improvements in the long run.

Now this does not mean, that stock markets can only go up? Certainly not. We have seen sharp corrections in the past and we are guaranteed to see market declines in the future. On average we know that for very two years of rising markets there is one year of declining stock prices. This is the deal every long-term stock market participant is (implicitly) agreeing to from the beginning. We also know that corrections typically illicit why more pain than rising stock markets trigger well-being. The reason is that corrections usually happen much faster than periods of increasing stock prices and therefore create substantial mental pain.

But we also know that over the long term, stock markets go up more than they go down. This is why we agree with Marilyn Monroe when she observed:" If you can't handle me at my worst, then you don't deserve me at my best".

Markus Koebler, Vice-President and Senior Global Equity Manager

Market Indices in Canadian Dollars as of June 30, 2021

	3 months	YTD	1 year	3 years*	5 years*
FTSE/TMX - 91 Day Tbill	0.03%	0.06%	0.15%	1.11%	0.95%
Bonds					
FTSE Canada Universe Bond Index	1.66%	-3.46%	-2.43%	4.16%	2.64%
FTSE Canada Short Term Overall Bond Index	0.07%	-0.52%	0.68%	3.06%	1.94%
Eterna Adapted Private Wealth Index [2]	0.68%	-1.51%	-0.13%	3.72%	2.20%
FTSE Canada Medium Term Universe Bond Index	1.60%	-3.00%	-1.37%	4.70%	2.58%
FTSE Canada Long Term Overall Bond Index	3.73%	-7.37%	-6.91%	5.11%	3.49%
North American Stock Indices					
Canada - S&P/TSX	8.54%	17.28%	33.85%	10.80%	10.77%
USA - Standard & Poor's 500	7.12%	12.00%	28.30%	16.41%	16.59%
USA - Dow Jones	3.70%	10.58%	24.25%	12.82%	15.62%
International Stock Market Indices					
United Kingdom - FTSE-100	4.27%	8.96%	19.88%	0.66%	5.48%
France - CAC-40	6.75%	10.42%	26.62%	5.40%	9.46%
Germany - DAX	2.99%	6.09%	21.16%	6.53%	10.42%
Japan - Nikkei-225	-3.04%	-5.24%	14.26%	6.71%	10.42%
Hong Kong - Hang Seng	0.35%	2.71%	7.33%	-1.71%	5.78%
Australia - S&P/ASX 200	4.60%	5.13%	22.95%	4.15%	6.11%
Currencies					
$ CAN versus $ USA.	-1.31%	-2.57%	-8.68%	-1.90%	-0.83%

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.

Source : Bloomberg

A NEW ADDITION TO ETERNA'S FUNDS

Dear distinguished clients,

We continuously strive to improve our product offering so that it meets your needs and is in tune with financial market conditions. With this in mind, we have introduced a new equity fund in the second quarter that is comprised of small and medium-sized Canadian companies.

This fund is managed by Philippe Côté, Co-Manager of the Eterna Quebec Equity Fund and Director of Research, and is based on Eterna Investment Management's own fundamental approach. The companies selected must have solid long-term business plans, be led by seasoned management teams and operate activity sectors with positive growth prospects. These companies must be financially sound in order to achieve their objectives, while maintaining a reasonable valuation.

The Eterna Small-Cap Fund is a great complement to traditional Canadian equities and offers structured and disciplined approach to investing in promising Canadian companies. For more information or if you have any questions about this new fund, we recommend that you contact your private manager.

Pierre Olivier Tardif, President

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