

ASSET SUMMARY AND ALLOCATION

Equity indices performed well in the first quarter, bolstered by high liquidity and near certainty that central banks will not raise interest rates in the coming year. The prospect of sustained expansion in the U.S. was confirmed with the passage of a nearly \$2 trillion economic recovery and support package. Although the service sector remains recessionary due to mandatory social distancing, the goods and real estate sectors are very robust, although the latter may be showing signs of stabilizing, with dramatic first-quarter interest rate increases.

The oil sector benefited from a number of factors in recent months, leading the Canadian

S&P/TSX Index to outperform the U.S. market year-to-date. Overall, the Canadian stock market returned 8.0% versus 4.5% for the U.S. S&P 500 Index in Canadian dollars.

Preferred shares benefited from rising interest rates with an 8.8% return on the benchmark. Asian and emerging markets did not fare as well, with the Chinese index down 1%.

The bond markets suffered historic declines, as the FTSE Canada Universe Bond Index lost 5.0% in three months as a result of a drastic rate increase for five-year and longer maturities, while rates in the money markets were stable.

We are still optimistic that North American expansion will proceed as vaccination in the U.S. is proving to be swift and reliable and looks to be on track to expand in Canada. However, the situation in Europe is quite substantially different and global growth is likely to be highly divergent from region to region over the next few months. On the assumption that vaccines will be effective against the variants, American expansion will be strong this year, in spite of possible, but temporary, bumps in the road.

- The first quarter saw the U.S., the U.K. and several other countries launch rapid and aggressive vaccination programs.
- With ongoing vaccination and a record \$2 trillion support program, the U.S. economy is poised for strong growth over the next two quarters.
- Bond indices are delivering some of their worst performance in history; with the rate hike, the FTSE Canada Universe Bond Index is down 5.0% since December.
- We continue to maintain our exposure to the stock markets and are confident that the Canadian stock exchange may continue to be favoured.

STATISTICS ON MARCH 31, 2021

CANADA			UNITED STATE OF AMERICA			CURRENCIES		
Unemploy. rate (February)	8.2 %	↓	Unemploy. rate (February)	6.2 %	↓	\$ É.-U. / \$ CAN	0.80	↓
C.P.I. (February)	1.1 %	↑	C.P.I. (February)	1.7 %	↑	\$ É.-U. / € Euro	1.17	↑
3 months treasury bills	0.09 %	↓	3 mths treasury bills	0.02 %	↓	¥ Yen / \$ É.-U.	110.72	↓
Bonds 5 years	1 %	↑	Bonds 5 years	0.94 %	↑			
Bonds 10 years	1.56 %	↑	Bonds 10 years	1.74 %	↑			
S&P/TSX	18 701	↑	Dow Jones - Industrial	32 982	↑			
			S&P 500	3 973	↑			

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

ECONOMY AND FIXED-INCOME SECURITIES

Interest rates have risen since the beginning of the year. Most of the increase was concentrated in maturities of five years or more, while rates remained stable in the money markets. For example, Canadian five-year rates finished the quarter at 1.00% compared to 0.40% at the end of 2020. There was also a substantial increase in longer maturities, with 30-year rates jumping from 1.20% to 2.00%. As a result, the bond market gained momentum as economic activity recovered from last summer's deconfinement measures. Canadian bond indices delivered one of the worst performances in history with the rate hike, as the FTSE Canada Universe Bond Index lost 5.0% since December. No market sector was spared, with a 10.7% loss in the long-term sub-index and a 0.6% decline in the one- to five-year maturity sub-index. All credit sectors also posted negative returns, although corporate bonds suffered smaller losses.

Inflation is still under control, but industrial and consumer goods production is strong and accelerated vaccination in the U.S. indicates vigorous expansion in 2021; this accounts for the rate hike, reflecting an increase in real rates. The 2020 recession is unique in that it was government-induced to curb social contact in response to the pandemic. It was five times as severe as the average recession since World War II. It saw government deficits skyrocket more in a matter of months than in the last five recessions combined. It led central banks

to spend more on government securities than ever before. The Bank of Canada bought almost 87% of new federal government securities issued in 2020. It also experienced an increase in total personal income that normally declines in a recession, but this increase was from government transfers, not from labour income.

In the U.S., there are now more than 20 million people currently receiving temporary support and unemployment insurance; nearly 9 million jobs have yet to be recovered. Through these programs and President Biden's nearly \$2 trillion stimulus package and rapid vaccination that will restore normal activity, there will be strong growth in the U.S. 2021, particularly in the second and third quarters; this will benefit Canada. The question remains to be seen how households will fare at year-end and especially in 2022, when government support comes to an end.

The picture is very different in Europe. Vaccination is lagging and a third wave seems imminent with the spread of variants; as of this writing, new confinement measures are being announced. European governments are less than generous with support programs, but the European Central Bank is holding rates below zero and is still very active in the markets. North American interest rates continue to be much higher than European and Japanese rates, which in our opinion will limit the upward trend in rates on our continent. The

dramatic rise in recent months may well lead to a stabilization of long-term rates in the near future.

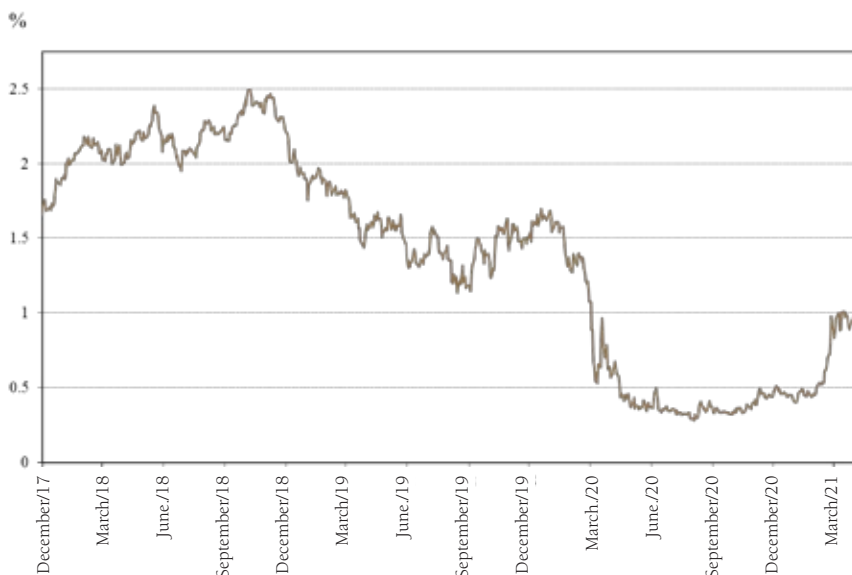
Year-over-year inflation rates will edge up by July, echoing last year's steep decline, but we don't foresee a secular rise in inflation at this point. Eventually, a recovery in global activity will reopen supply chains and may even create a price war to regain markets; this remains to be seen, but global production capacity remains high, more so than it was before the pandemic.

Our portfolios have benefited from narrowing credit spreads in the first quarter, but were hampered by too much duration; we were overly hasty in extending their maturities. We anticipate second-quarter improvement which will benefit our current positioning. Furthermore, interest rate hikes could adversely impact vulnerable sectors such as real estate and growth-related equity sectors. Meanwhile, Europe's recovery is stalling and Chinese authorities are attempting to curb excess liquidity. We are keeping a close eye on the situation and continue to actively manage our portfolios.

Michel Pelletier, Vice-President and Senior Fixed Income Manager

Bobby Bureau, Fixed Income Analyst and Manager

Canada 5 Year Government Bond Yield



Source : Bloomberg

NORTH AMERICAN STOCK MARKET

Fears of rising inflation rates magnified the bond market correction and supported equity markets as well as commodities. Most global equity indices have experienced positive returns since the start of the year.

The S&P500 index is up 4.6% and the S&P/TSX Canadian market index up 8.1%. This outstanding market performance reflects an increase in commodities, with a strong Canadian presence. For instance, the price of copper, after a 26% increase in 2020, has pursued its upward trend in the first quarter, with a 13% additional increase.

Oil prices are up 23% since the beginning of the year and several other industrials have been climbing for several months. Outstanding

results from Canadian companies in the last quarter forced analysts to adjust their forecasts and are providing positive forward momentum to our market. We've seen a shift to more cyclical and value-oriented sectors, including financials, energy, consumer discretionary and materials.

A return to more optimistic stock market conditions helped small-cap companies outperform larger-cap companies. At the earnings level, both Canadian and U.S. sales and earnings increased last quarter, with technology, health care, materials and financial sectors posting the strongest gains.

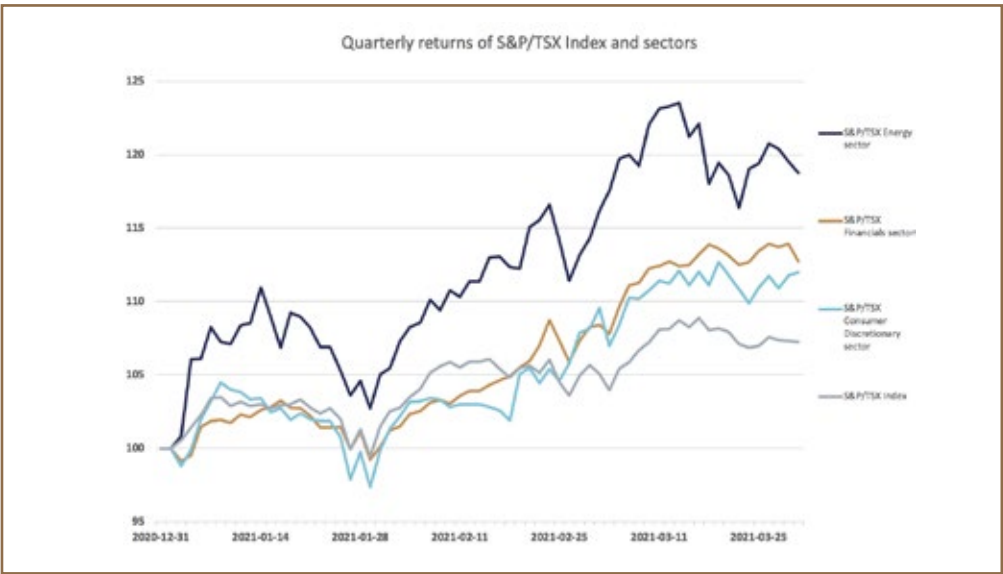
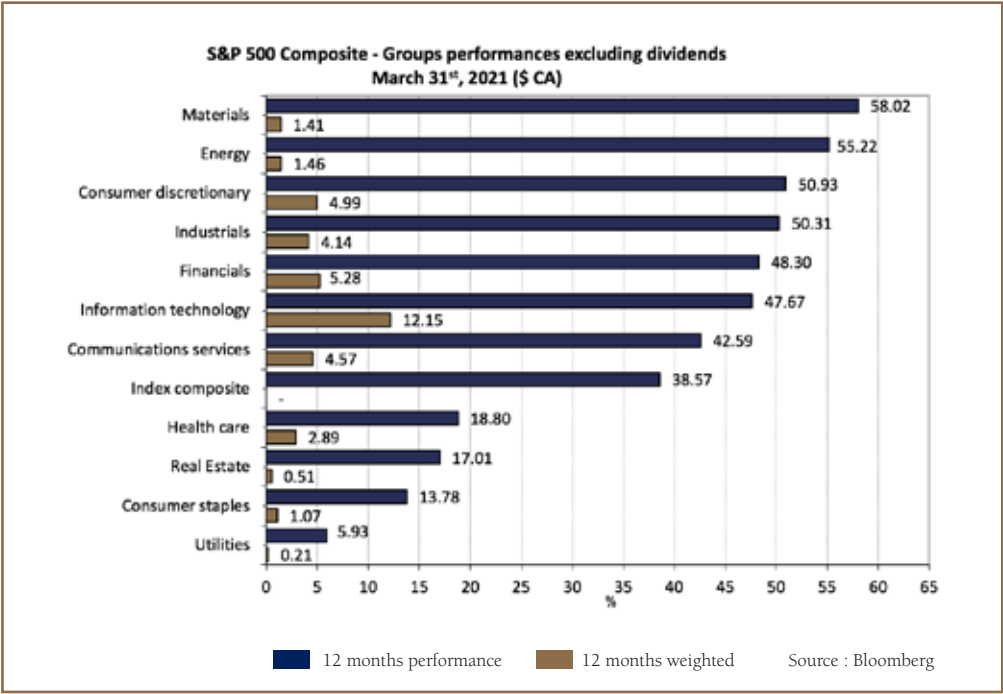
Stock performance in the last quarter still favoured our companies, contrary to last year

when technology stocks were the primary source of the stock market rally. Other sectors have recently taken over and many of our holdings rallied significantly. The financial sector, particularly banks, as well as the energy sector, all contributed to our strong performance.

Stocks that contributed the most, both in performance and weighting in our various strategies, were Royal Bank, TD Bank, Magna International, Enbridge, Canadian Natural Resources and Canadian Pacific. In our U.S. dividend strategy, financial stocks made positive contributions in the last quarter. The key contributors were our positions in JP Morgan, MT Bank and U.S. Bank, which rose by over 20%. Other standout stocks were Home Depot, up 15%, and Valero Energy, up 28%.

Over the next few months, we will continue to capitalize on investment opportunities as they arise. We are still optimistic in the long term, but will remain prudent in the short term and will benefit from potential corrections, considering the sharp market increases over the past six months.

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



INTERNATIONAL EQUITIES

In pre-pandemic times, when social events did not happen through an internet connection, we occasionally participated in cocktail parties or similar gatherings. Once our interlocutors found out about our involvement in financial markets, by far the most prominent question was: “What are you currently buying or selling?” Judging from the facial expression of our discussion partners, they were hoping for a story similar to George Soros’ famous bet against the British Pound in 1992 that pocketed him the equivalent of \$1bn. Our response in the vast majority of instances has been “Nothing”, which often resulted in a yawn on our partner’s face and an abrupt end of the conversation. While we understand the desire for entertainment it is not in the field of investing where it should be satisfied. Quite the opposite is often true, the more boring the investment the better it will do in the long term.

While press coverage and media excitement will naturally gravitate to the latest bright and shiny object, just think of the Gamestop saga or the excessive fluctuations in media stocks like

Discovery and Viacom more recently, our focus is on so called “compounders”. Compounders are companies that can very predictively increase their sales and margins while also being able to reinvest their profits into the business to further increase their competitive advantage. Because these are all very gradual and stretched-out processes, often requiring expert knowledge, they typically go unnoticed and are unlikely to lead to media excitement. Nobody gets exhilarated by the fact, that Nestle just added two new products to its Premium Baking Kit Lineup. But that is exactly how value is created in the long term.

Buying one of these businesses and holding it forever — through peaks and troughs — is almost always much better than attempting to repeatedly buy average businesses at a deep discount and then sell them at fair value, because we only have to buy a truly wonderful business once and then we can forget about it. In contrast, continuously buying and selling average businesses must be repeated many times and brings with it four major drawbacks:

- We must be right many times buying and selling average businesses to equal the long-term compounding impact of simply buying one truly wonderful business and holding it forever.
- It is much more labor-intensive, taking time away from other portfolio work.
- We lose the compounding effect by having to pay taxes every time we sell at a profit.
- We enrich our broker at the expense of our customers as every trade generates additional fees and expenses.

At the end of 2019, our then exclusive broker told us that he wished end the relationship with us as it did not generate enough fees for him to maintain it. We took that as a huge, tough involuntary, compliment. We assume that our clients would agree.

Markus Koebler, Vice-president and Senior Global Equity Manager

Market Indices in Canadian Dollars as of March 31, 2021

	1 month	1 year	3 years ¹	5 years ¹
FTSE/TMX - 91 Day Tbill	0.03 %	0.23 %	1.20 %	0.97 %
Bonds				
FTSE Canada Universe Bond Index	-1.49 %	1.62 %	3.77 %	2.83 %
FTSE Canada Short Term Overall Bond Index	0.09 %	2.77 %	3.15 %	2.06 %
Eterna Adapted Private Wealth Index ²	-0.34 %	2.37 %	3.59 %	2.34 %
FTSE Canada Medium Term Universe Bond Index	-0.98 %	1.73 %	4.23 %	2.73 %
FTSE Canada Long Term Overall Bond Index	-3.86 %	-0.23 %	4.15 %	3.84 %
North American Stock Indices				
Canada - S&P/TSX	3.87 %	44.25 %	10.19 %	10.05 %
USA - Standard & Poor's 500	3.24 %	38.57 %	15.78 %	15.56 %
USA - Dow Jones	5.61 %	36.29 %	12.63 %	15.26 %
International Stock Market Indices				
United Kingdom - FTSE-100	1.95 %	20.27 %	0.92 %	4.23 %
France - CAC-40	2.34 %	31.01 %	3.04 %	6.72 %
Germany - DAX	4.73 %	43.38 %	4.95 %	8.54 %
Japan - Nikkei-225	-3.93 %	33.21 %	8.41 %	11.40 %
Hong Kong - Hang Seng	-3.37 %	6.24 %	-2.47 %	5.72 %
Australia - S&P/ASX 200	-0.72 %	47.98 %	4.47 %	5.15 %
Currencies				
\$ CAN versus \$ É.-U.	-1.38 %	-10.67 %	-0.88 %	-0.69 %

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