QUARTERLY REVIEW- DECEMBER 2023

ASSET SUMMARY AND ALLOCATION

Despite the uncertainty in the early part of the year caused by high inflation, interest rate hikes, geopolitical tensions, economic slowdown and American bank failures, Artificial Intelligence was the stock market theme for 2023. It is no surprise that technology-heavy indices like the S&P 500 and NASDAQ saw the biggest gains. The "Magnificent 7" include Apple, Amazon, Alphabet, Meta Platforms, Microsoft, Nvidia and Tesla. These seven companies alone generated a 71% return, and their market valuation is so high it almost exceeds the combined valuation of the entire Canadian, Chinese, French, Japanese and British stock markets.

Thus, 2023 concludes with an 11.8% return for the Canadian stock market and 26.3% for the S&P 500 index of the U.S. stock market. Not surprisingly, the U.S. stock market's outperformance versus Canada's is attributable to its overweighting of technology companies. The technology sector alone delivered a 57.8% annual return. Moreover, annual returns were equally positive for the main European stock market indices: 3.8% for the FTSE 100 (UK), 16.5% for the CAC 40 (France), and 20.3% for the DAX 30 (Germany). China's stock market, on the other hand, continues to flounder, recording another negative return of 3.7%.

Earlier this year, we mentioned that by 2023, we would have to keep a watchful eye on corporate earnings, which could be vulnerable in a slowing economy. This has proved to be the case, as stock market growth was driven primarily by expanding valuation multiples, not earnings. Currently, the analyst consensus for 2024 is still calling for a rebound in earnings, even though we are still in a slowdown and stagnant economy. In the event of a recession, the current estimates are probably too optimistic and likely to be revised downward, potentially causing volatility in the equity markets.

The FTSE Canada Universe Bond Index posted a positive return of 6.7%, reflecting interest rate cuts in November and December. On the bond market, fixed income securities are once again a relevant asset class in the wake of rate hikes.

- **Artificial intelligence** was the stock market highlight of 2023, in spite of uncertainty caused by high inflation, interest rate hikes, geopolitical tensions, economic slowdown and American bank failures.
- Stock market growth was primarily driven by **expanding valuation multiples**, not earnings. Consensus forecasts for 2024 call for a rebound in earnings, despite the current economic slowdown/stagnation.
- **Canada's strong population growth** conceals our sluggish economy, while the U.S. economy is expanding above potential on the back of impressive household consumption.
- As the year progressed, the **central banks softened their tone**; the Fed expects three rate cuts in 2024.
- Future central bank decisions will have a major impact on global economic growth and financial markets. The forthcoming **easing** of monetary policies **could improve the financial situation** of the population and governments alike.

ECONOMY AND FIXED INCOME SECURITIES

As we look back to early 2023, the aggressive tightening of monetary policies generated pervasive anxiety in financial markets, and forecasters expected recessions throughout the year. Against all expectations, the Canadian economy avoided a technical recession at mid-year, helped by record immigration levels. Winter 2023 was expected to be catastrophic in Europe, with oil supplies disrupted by the Russia-Ukraine war. Ultimately, a milder winter prevented a recession at the start of the year. However, European countries, like Canada, are increasingly showing signs of economic gloom. Our southern counterparts posted above-potential economic growth, which was driven by impressive household consumption.

While inflation accelerated once again over the summer, and remains slightly above target, progress over the course of the year has been substantial; falling energy prices were a major contributor, while core inflation linked to services was more tenacious. Interest rate hikes also played a part; their full effect has yet to be felt, and investors are justified in asking if central banks were overly aggressive. As the year progressed, the central banks softened their tone. The U.S. Federal Reserve's forecast at its December meeting indicates that it expects three rate cuts in 2024. There is still a chance of another inflationary shock of the kind seen in the 1970s, but the increasingly precarious situation of consumers and slowdown in job growth are reducing this risk.

Is it possible to avoid another recession in 2024, as predicted more than a year ago? On the one hand, forecasters are increasingly reluctant to talk about recession for 2024, considering their recent failures. The topic of the day is more about a soft landing, especially where the U.S. economy is concerned. This means that the U.S. could avoid a recession; interest rate hikes would be calibrated to provide the perfect scenario where inflation returns to its 2% target and where the economy slows but does not contract. Historically, however, this has not been the case, and is still highly idealistic. We would prefer to focus on the evidence we are currently observing.

The Canadian economy is currently slowing down. Growth has been weaker each quarter and contracted by 1.1% in the third quarter. Unemployment rose over the course of the year, with the Canadian economy unable to create enough jobs to keep pace with workforce growth. At its last meeting in December, the Bank of Canada acknowledged that interest rates were slowing Canadian household consumption and economic growth. Thus, 2024 is likely to be difficult for Canadian households in the absence of a rate cut. The situation is particularly stressful for those with mortgages. According to available data, around 50% of mortgage holders have already felt the effects of interest rate hikes, either because they renewed their loan at a higher rate, or they had a variable-rate mortgage. This leaves a further 50% who will feel the effects of these increases in 2024 and 2025 when they renew their mortgages. Without a significant drop in rates, household consumption will continue to slow and weigh on economic growth.

The American economy is probably the most resilient so far. Several factors were overlooked at the beginning of the year, which explains why growth has exceeded expectations. Firstly, as we have often mentioned, the U.S. economy is more diversified and less sensitive to interest rates. Secondly, the excess savings accumulated during the pandemic were underestimated, and Americans supported their spending with these savings and lowered their savings rate. Finally, the Biden administration provided significant fiscal measures to bolster the economy. As with Canada, there is growing doubt about the ability of American consumers to maintain the same pace of spending in 2024. Strong consumer spending would be financially healthier if supported by increased disposable income instead of excess savings and a falling savings rate. The rising delinquency rates on personal loans, car loans and credit cards suggest that Americans may be outspending their budgets.

In light of these considerations, there is no doubt that future central bank decisions will still have a major impact on global economic growth and financial markets. Moreover, despite the negatives mentioned above, easing monetary policies have lowered interest rates across the curve, which could benefit both the population and governments alike. Even with the adverse effect of rising rates on debt, bonds are once again providing attractive yields for investors. Interest-rate levels also offer good protection during periods of high volatility on the stock markets. This is why holding bonds is increasingly attractive for a balanced portfolio.

The decline in rates during November and December finally helped the Canadian bond market achieve a positive return of 6.7% in 2023, after falling by -11.7% in 2022 and -2.5% in 2021. Once again this year, our three bond funds will have managed to create added value compared to their benchmarks.

Bobby Bureau, MBA, CIM®
Senior Manager, Fixed Income
Portfolio Manager

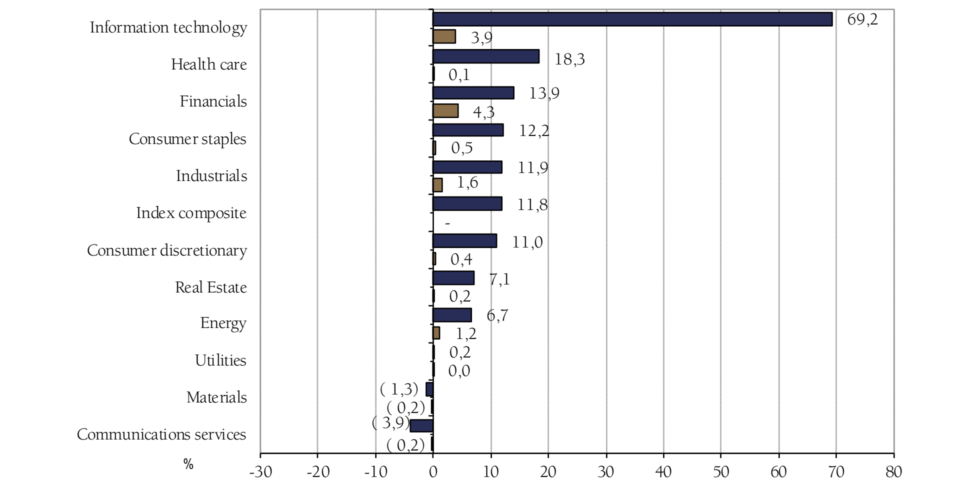
CANADIAN AND QUEBEC EQUITIES

Despite a difficult start to the year, with interest rate hikes disproportionately affecting Canada's key financial sector, and a weaker presence in technology, the Canadian S&P/TSX index still ended the year up 11.8%. Before the sharp increase in late October, the Canadian market had bottomed out at its lowest level of the year, and was essentially at zero return for the year. A rapid rally over the last two months saw the index close out 2023 near its peak, as interest rates came to the end of their upward cycle. The financial sector and interest-rate-related stocks, like Utilities and Real Estate, rebounded strongly during this period. The technology sector in the S&P/TSX, led by Shopify and Constellation Software, continued its fourth-quarter outperformance, ending 2023 up 69%.

Our Canadian equity fund ended 2023 slightly ahead of the Canadian index. Our overweight positions in Brookfield Corp and Intact at the expense of banking stocks, and our positions in industrial products, notably Stantec (+65% for the year), offset the outperformance Canadian index's technology sector and the decline of First Quantum. Our overweight positions in Constellation Software (+59%), a software vendor consolidator in several different vectors, and Open Text (+42%), a data management software provider that shows good progress since acquiring Micro Focus in 2022, strongly contributed to performance for the year.

In Q4, we introduced three new holdings to the portfolio: WSP Global, a global leader in engineering consulting, which will profit from high demand for infrastructure projects worldwide and continuing industry consolidation. CGI Group, a leader in IT outsourcing and consulting, will be able to support its customers as they invest in digitization, cybersecurity and artificial intelligence. Dream Industrial REIT, suffering during the year from rising interest rates, but still operating in a strong market for industrial real estate, will benefit both from its size to complete its growth projects, and a gradual upward adjustment of rents over the next few years to bring them in line with market prices.

S&P/TSX Composite - Groups performances including dividends
December 31st, 2023 ($ CA)



Source : Bloomberg

Our Canadian equity fund has outperformed the Canadian index across all maturities (one, three, five and ten years), reflecting our fundamental management approach which takes us through all the different stock market cycles.

Smaller-cap stocks rebounded in the final quarter of 2023, after being sidelined during the year as investors focused on large-cap stocks amid economic uncertainty of consecutive interest rate hikes. Our fund, launched in 2021 and following the same management philosophy as our Canadian equity fund, but within a universe of stocks with market capitalizations under $6 billion, still outperforms the Canadian small-cap index. In fact, since its launch in June 2021, the Eterna Small-Cap Fund's gross return has outpaced the S&P/TSX index by an annualized 1.5%, boosted by judicious stock selection and the privatization of several portfolio companies during the period.

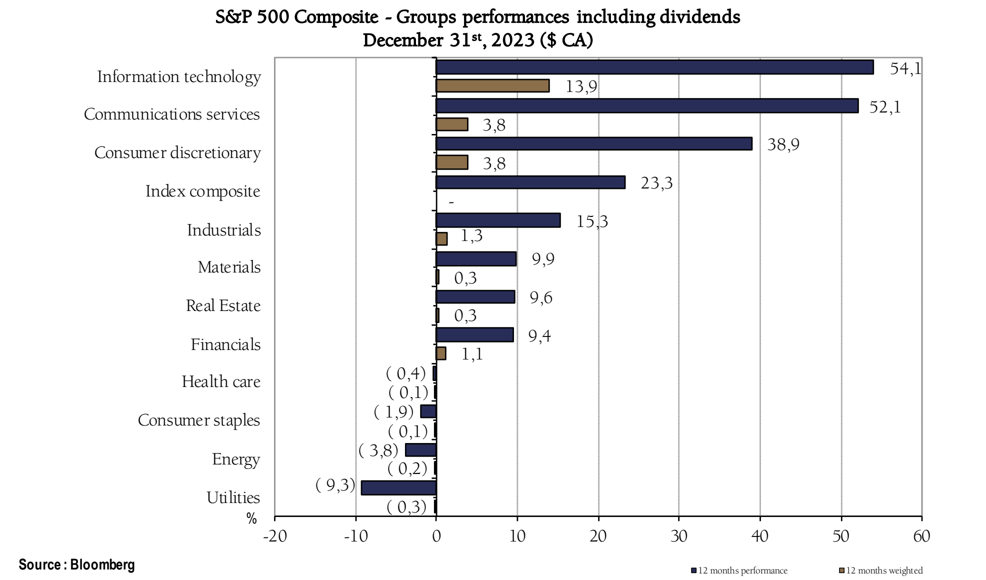
Eterna's Quebec equity strategy has consistently outperformed its Canadian equity peers. For the 11th year in the last 14, the Eterna Quebec Equity strategy significantly outperformed the S&P/TSX index. With its sector allocation shifting away from the financial sector and no presence in traditional energy, the Quebec fund enjoyed robust consumer and industrial stocks. In particular, Stella-Jones (+61% for the year), CGI Group (+22%), Dollarama (+21%) and WSP Global (+19%) reported growing results with excellent operational performance, in line with the strategy outlined to investors.

For 2024, while we continue to pursue our fundamental investment philosophy, we believe that the strong job market, coupled with slowing inflation growth and completion of the rate hike cycle could support equity markets, particularly non-tech sectors that show more reasonable valuation measures than U.S. mega-caps.

Philippe Côté
Vice-President and Portfolio Manager

Mickaël Carrier
Equity Analyst

US, INTERNATIONAL AND GLOBAL EQUITIES



The performance of global equities over the last quarter was remarkable, displaying exceptional robustness, with gains ranging from 7% for international equities to 9% for US equities, despite persistent challenges. Markets were buoyed by a favourable economic climate marked by falling inflation, supported by more flexible central banks with regard to price rises.

For the year as a whole, the world's main stock market indices recorded significant gains, ranging from 15.4% for international equities to 23.2% for US equities, reflecting a breath of optimism linked to artificial intelligence. The technology sector stood out strongly, driving growth in equities. Artificial intelligence innovators in particular flourished.

Our U.S., international and global equity strategies delivered positive returns for the quarter and the year, but well below the indices, as we had insufficient exposure to artificial intelligence and too much exposure to renewable energies and their infrastructure. Over the past three months, Intel and Microsoft and energy efficiency stocks such as Schneider Electrique, Compagnie de Saint-Gobain and Comfort Systems have made positive contributions to strategy performance.

During the quarter, we initiated a position in Alstom, the train manufacturer whose stock fell by almost 50% during the year despite a healthy order book. We eliminated our position in Brambles, a specialist in pallet management for international transport, after the stock outperformed our target price.

In conclusion, equities performed exceptionally well in 2023, buoyed by surprising optimism. However, vigilance is still called for in the face of potential risks that could influence market trajectory in the months ahead, particularly with regard to consumer discretionary. Portfolios are positioned to benefit from a slowdown in consumption relative to manufacturing. Unlike 2023, we are confident that our current portfolio positioning will work in our favor in 2024.

Comments by:

Nordis Capital, new Global, International and U.S. Fund manager since November 2022

STATISTICS ON DECEMBER 31ST 2023

CANADA		
Unemploy. rate (August)	5,8 %	↑
C.P.I. (August)	3,1 %	-
3 months treasury bills	5,04 %	↑
Bonds 5 years	3,18 %	↓
Bonds 10 years	3,11 %	↓
S&P/TSX	20 958	↑

UNITED STATES		
Unemploy. rate (August)	3,7 %	↓
C.P.I. (August)	3,1 %	↓
3 months treasury bills	5,33 %	↓
Bonds 5 years	3,85 %	↓
Bonds 10 years	3,88 %	↓
Dow Jones - Industrial	37 690	↑
S&P 500	4 770	↑

CURRENCIES		
$ USA / $ CAN	0,76	↓
$ USA / € Euro	1,10	↓
¥ Yen / $ USA	141,04	↑

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

MARKET INDICES IN CANADIAN DOLLARS AS OF DECEMBER 31ST, 2023

	3 months	6 months	1 year	3 years*	5 years*
FTSE Canada 91 Day TBill Index	1,28 %	2,52 %	4,71 %	2,22 %	1,83 %
BONDS					
FTSE Canada Universe Bond Index	8,27 %	4,08 %	6,69 %	-2,80 %	1,30 %
FTSE Canada Short Term Overall Bond Index	4,11 %	3,98 %	5,02 %	-0,06 %	1,62 %
Indice adapté gestion privée Eterna [1]	5,76 %	4,09 %	5,50 %	-1,02 %	1,60 %
FTSE Canada Mid Term Overall Bond Index	8,26 %	4,20 %	6,13 %	-2,51 %	1,52 %
FTSE Canada Long Term Overall Bond Index	14,82 %	3,91 %	9,51 %	-6,47 %	0,63 %
NORTH AMERICA STOCK MARKETS $ CAN					
Canada - S&P/TSX	8,10 %	5,72 %	11,75 %	9,59 %	11,30 %
United States - Standard & Poor's 500	8,90 %	7,86 %	23,27 %	11,25 %	14,97 %
United States - Dow Jones	10,27 %	10,53 %	13,41 %	10,62 %	11,78 %
INTERNATIONAL STOCK MARKETS $ CAN					
United Kingdom - FTSE-100	4,31 %	4,76 %	11,15 %	8,98 %	6,16 %
France - CAC-40	7,82 %	3,13 %	17,49 %	8,35 %	8,35 %
Germany - DAX	11,03 %	4,95 %	21,31 %	4,38 %	8,24 %
Japan - Nikkei-225	8,65 %	3,16 %	16,44 %	-2,58 %	4,89 %
Hong Kong - Hang Seng	-6,43 %	-9,73 %	-15,97 %	-13,70 %	-8,51 %
Australia - S&P/ASX 200	11,43 %	7,82 %	5,52 %	1,93 %	4,81 %
CURRENCY					
USD versus CAD	-2,46 %	0,01 %	-2,29 %	1,34 %	-0,58 %

* Annual compounded total return.
1 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

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