ETERNA
FINANCIAL GROUP

MONTHLY LETTER - MAY 2024

"Sell in May and go away." It's an oft-repeated stock market adage that the summer months are less financially rewarding than the months from November to April. But this year, May got off to a strong start. The U.S. Central Bank meeting and the employment figures released at the beginning of the month quickly triggered a positive sentiment among investors and offset April's losses. At its May 1 meeting, the Fed made no bones about the lack of progress on inflation in recent months, and investors were increasingly apprehensive about further rate hikes. However, the Fed governor hinted at a downward shift in rates rather than an upward one. Financial market players welcomed this reaction. On May 3, below-expectation job creation and declining hourly wage growth were viewed positively. This may help alleviate inflationary pressures. However, the month's end was more turbulent on the stock markets as interest rates moved up the yield curve.

In May, the S&P 500 returned 5% and the Dow Jones 2.3% in local currency. Inside the U.S. stock market, technology stocks continue to dominate gains. NVIDIA alone is responsible for almost one third of the S&P 500's year-to-date performance, and over 50% of returns so far this year come from Amazon, Meta, Microsoft and NVIDIA. In Canada, the S&P TSX index returned 2.8%; in contrast to the U.S., Canada's technology sector is struggling in 2024. The sector is down 6.2% this month and -7.4% year-to-date. In Europe, the main indices also generated favourable returns: 1.6% for the FTSE 100 (UK), 0.1% for the CAC 40 (France) and 3.2% for the DAX 30 (Germany). In China, the Shanghai Se index returned -0.6%.

The bond market enjoyed a positive month, with the FTSE Canada Universe Bond Index yielding 1.77%. The bond market is still concerned that the large U.S. deficit will exert upward pressure on interest rates. We observed this at month-end, when interest rates rose in the wake of hard-selling U.S. Treasuries. We remain optimistic that there will be a divergence between U.S. and Canadian monetary policies, while Canada is experiencing downward-trending inflation and a softening labour market.

On the economic front, the focus continues to be on inflation. While U.S. inflation is getting steadily more entrenched, Canada has good news on this front. For a fourth consecutive month, total inflation is within the 1% to 3% target range. More precisely, inflation stood at 2.7% in April. Canada's housing price growth remains problematic, with an annual variation of 6.4%. For example, inflation outside of housing would be just 1.2%. Finally, we received Canada's economic growth figures for the first quarter of 2024. GDP grew at a 1.7% annualized rate, well below the consensus of 2.2% and the Bank of Canada's forecast of 2.8%. While growth appears weak relative to expectations, consumer spending was strong, especially in services. In fact, inventories were the main drag on growth. These figures bolster investor optimism that Canada's key interest rates could be cut as early as June or July.

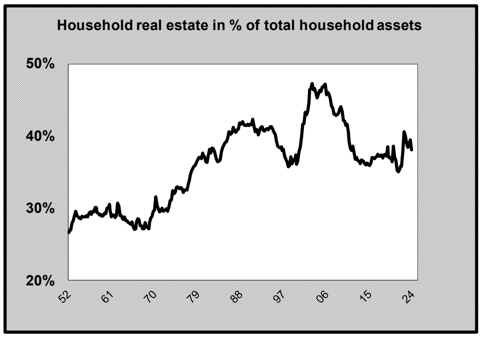
Bobby Bureau, MBA, CIM®
Senior Manager, Fixed Income
Portfolio Manager

THE WEALTH EFFECT IN RESIDENTIAL REAL ESTATE: Relatively clear skies, with a few…clouds.

For most families, a home is their largest-ever purchase and their most valuable asset. The housing sector is where many households have made, or will make, their largest investment. Therefore, the prices that families pay for that housing can affect their overall well-being and the whole economy.

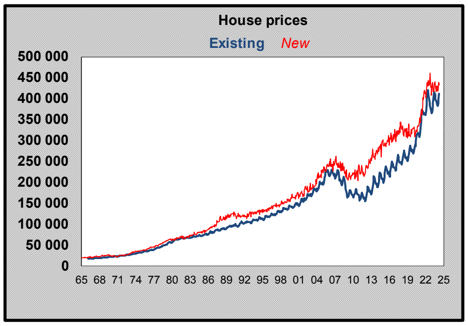
Vice Chair Philip N. Jefferson
May 20th, 2024

The U.S. Federal Reserve's focus on residential real estate market reflects the fact that, at 38%, it accounts for a substantial percentage of household assets.

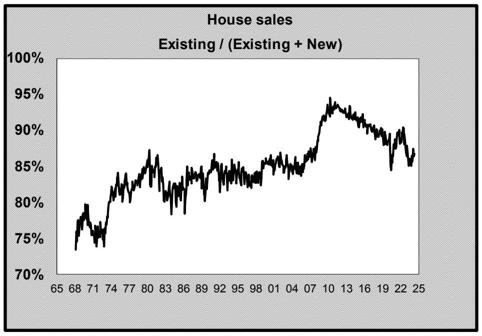


And considering that consumers represent 68% of the country's total economy, monetary authorities have to maintain a delicate balance between the impact of property prices on inflation, and the significance of this wealth effect on the economy as a whole.

In the United States, prices for existing and new homes have followed much the same pattern, with



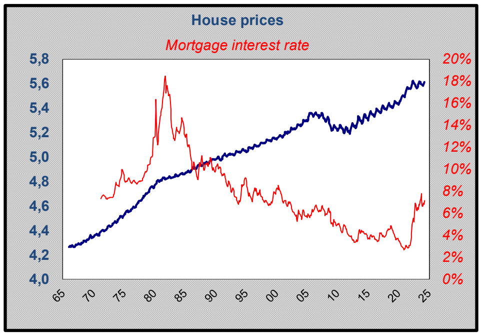
existing homes accounting for the largest share of the market (now 87%).



Impact of interest rates:

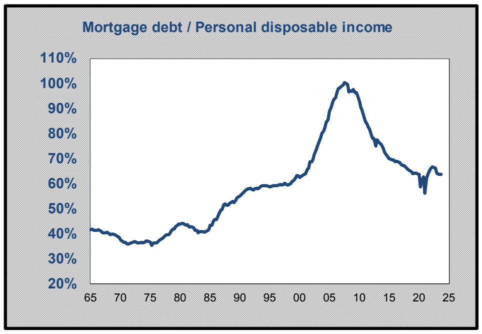
It is basically self-evident that high mortgage rates adversely affect on the residential real estate market.

Surprisingly, however, house prices[1] in the past have been fairly resilient in the face of rising mortgage interest rates (7.2% at the end of April 2024).

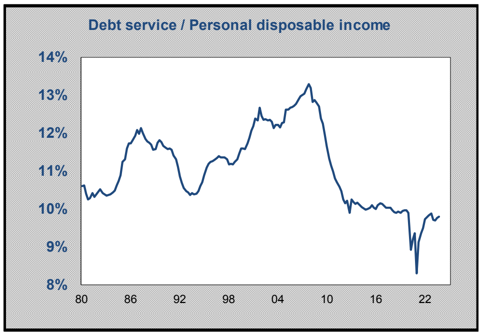


Possible explanations:

a. The 2007–2009 crisis is credited with driving households to greater discipline, reducing mortgage debt from 100.4% of personal disposable income to 63.6%.



b. Even if interest rates have risen since March 2022, they are significantly lower than they used to be, as households have managed to "live with it," since the money they spend on interest payments and principal repayments is now 9.8%.

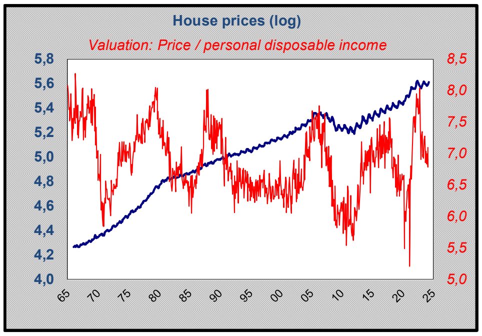


1 Historical data are expressed in natural logarithms, which makes it easier to visualize and compare the scale of movements.

Valuation

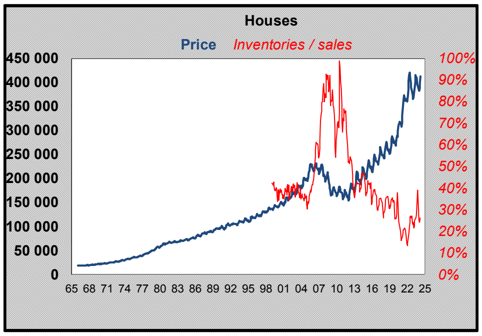
While house prices are approaching all-time highs, economic growth has helped boost household incomes more than house prices, reducing the ratio of house prices to

personal disposable income from 8.7% in October 2022 (shortly after the start of monetary tightening) to the recent 6.6%.

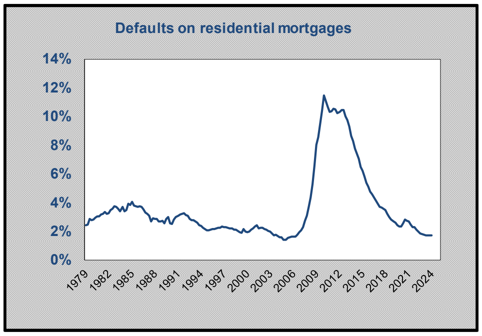


Risks:

a. If inventories start to rise relative to sales (a low coefficient implies a tight market), it could unbalance the traditional supply/demand equation.



b. If mortgage defaults are now at an all-time low, notwithstanding interest rate hikes, people renewing their mortgage terms may find this a little difficult, to put it mildly.



c. As far as monetary policy is concerned, it would be preferable if real prices (house prices relative to general inflation) would stop rising. This is what Fed Vice Chair Philip N. Jefferson recently referred to, and is quoted at the beginning of this report.

But without indulging in an ever-dangerous form of wishful thinking, the gap between residential inflation growth and general inflation has recently been moving in the right direction.

Important reservation: These observations were made on historical data, which are no guarantee of the future.

Data source: Bloomberg. Federal Reserve. The Bureau of Economic Analysis. United States Census Bureau.

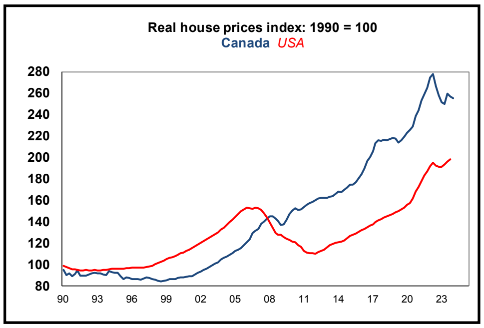
Pierre-Dominique Lussier
Vice-President and Senior Advisor

OBSERVATIONS

History of Canadian real house price[1] outperformance

Over the entire period under review, Canadian real house prices outperformed those of the United States by an average of 0.8% (Canada: 2.9% p.a. vs. the U.S.: 2.1% p.a.), since

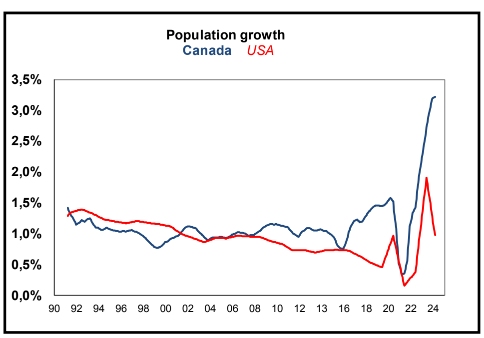
March 2012, following its recovery from the crisis when they suffered most, the U.S. recovered to some extent, with an average annual increase of 5.0% vs. 4.2% for Canada.



Higher population growth in Canada

Fundamentally, but marginally, a growing population positively affects housing prices, especially if supply does not meet demand, which was not the case in the United States during the crisis.

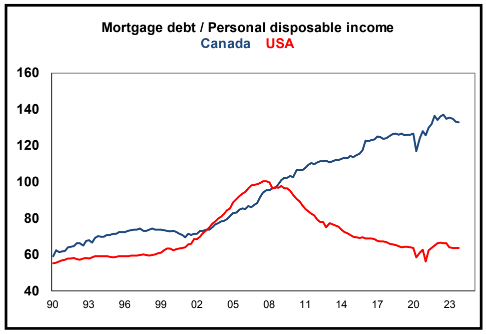
For several years, population growth rates were more or less the same. Over the entire period, Canada's growth averaged 1.13%, while the U.S. average was 0.93%. However, since 2008, the gap widened significantly to 0.50%, or 1.25% for Canada, versus 0.75% for the United States. The question is whether Canada's immigration policy will persist.



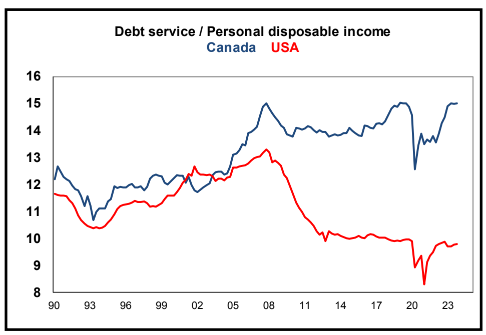
Debt significantly higher than in Canada

Là où le Canada pourrait relativement souffrir vient:

a. vthe debt gap, where mortgage debt represents 132.7% of personal disposable income, versus 63.4% in the U.S., and



b. its impact on debt servicing, which now represents 15.0% of personal disposable income, versus 9.8% in the United States, though figures were much the same in 2005.



Similar valuation measures

While the Canadian housing market has been more affordable for many years, the gap between price and personal disposable income coefficients[2] has narrowed since 2011, and more recently reflects a slightly more expensive Canadian market (Canada: 136.2% vs. the U.S.: 133.2%).

CONCLUSION

Given that valuations are essentially the same, Canadian residential real estate prices would have to remain in a tighter Canadian market, largely related to immigration policies, if they are to continue to improve.

The relative—and significant—risk: debt.

Important reservation: These observations were made on historical data, which are no guarantee of the future.

Data source: Federal Reserve. The Bureau of Economic Analysis. Statistics Canada. United States Census Bureau.

To use, reproduce or distribute this document in whole or in part, please contact us at plussier@eterna.ca.

Pierre-Dominique Lussier
Vice-President and Senior Advisor

1 Coefficient of the nominal price index on the consumer spending deflator

2 Nominal house price index divided by nominal disposable income per capita.

STATISTICS ON MAY 31ST, 2024

CANADA

Unemploy. rate (April)	6,1 %	-
C.P.I. (April)	2,7 %	↓
3 months treasury bills	4,98 %	↓
Bonds 5 years	3,68 %	↓
Bonds 10 years	3,63 %	↓
S&P/TSX	22 269	↑

UNITED STATES

Unemploy. rate (April)	3,9 %	↑
C.P.I. (April)	3,4 %	↓
3 months treasury bills	5,40 %	↑
Bonds 5 years	4,51 %	↓
Bonds 10 years	4,50 %	↓
Dow Jones - Industrial	38 686	↑
S&P 500	5 278	↑

CURRENCIES

$ USA / $ CAN	0,73	↓
$ USA / € Euro	1,08	↓
¥ Yen / $ USA	157,31	↑

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 MAY 31ST, 2024

	YTD	3 months	6 months	1 year	3 years*	5 years*
FTSE Canada 91 Day TBill Index	2,17%	1,29%	2,57%	5,09%	2,93%	2,13%
BONDS						
FTSE Canada Universe Bond Index	-1,49%	0,22%	1,89%	2,57%	-1,83%	-0,09%
FTSE Canada Short Term Overall Bond Index	0,81%	0,96%	2,34%	4,47%	0,32%	1,28%
Indice adapté gestion privée Eterna [1]	-0,10%	0,72%	2,27%	3,57%	-0,52%	0,86%
FTSE Canada Mid Term Overall Bond Index	-1,47%	0,34%	2,14%	2,18%	-1,84%	0,17%
FTSE Canada Long Term Overall Bond Index	-4,92%	-1,05%	0,87%	-0,13%	-4,78%	-2,22%
NORTH AMERICA STOCK MARKETS $ CAN						
Canada - S&P/TSX	7,58%	5,07%	11,79%	17,55%	7,35%	10,14%
United States - Standard & Poor's 500	14,97%	4,41%	16,85%	28,55%	14,08%	16,01%
United States - Dow Jones	6,94%	0,16%	9,08%	20,32%	10,37%	11,82%
INTERNATIONAL STOCK MARKETS $ CAN						
United Kingdom - FTSE-100	12,34%	11,45%	14,71%	19,13%	10,17%	7,19%
France - CAC-40	7,31%	1,75%	9,36%	15,14%	7,53%	8,51%
Germany - DAX	11,83%	5,60%	14,11%	20,76%	6,35%	9,11%
Japan - Nikkei-225	6,46%	-5,78%	8,84%	11,09%	1,64%	5,41%
Hong Kong - Hang Seng	9,41%	10,14%	6,39%	-0,44%	-11,39%	-7,43%
Australia - S&P/ASX 200	1,84%	2,79%	9,73%	11,88%	1,43%	3,08%
CURRENCY						
USD versus CAD	2,91%	0,36%	0,49%	0,40%	4,15%	0,17%

* 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

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