ETERNA FINANCIAL GROUP

QUARTERLY

REVIEW

SEPTEMBER 2025

MARKET SUMMARY AND ASSET ALLOCATION

DESPITE UNCERTAINTY, MARKETS REACH NEW HIGHS

Since the start of the year, tariff announcements have been the main factor in financial forecasts. Uncertainty is still pervasive, owing to a U.S. President who shifts between standing firm and backtracking. Even though global tariffs have increased, and agreements have been reached, a sense of uncertainty continues to cast a shadow over financial markets.

In this context, we have observed an economic slowdown as tariffs take effect, although indicators do not show a recession. Despite the uncertainty, global equity markets have staged an impressive rebound, and investors seem to have adopted the outlook that tariffs will be manageable for the economy.

Strong performance from U.S. and Canadian stocks

Several stock market indexes reached record highs in the third quarter. In the United States, the flagship S&P 500 Index rebounded by more than 30% from its April decline, including a return of 8.1% during the quarter. Technology companies helped the NASDAQ advance by 11.2%, while the Dow Jones Industrial Average rose by 5.2%. In Canada, the S&P TSX Index was up 12.5% on the quarter.

After a strong start to the year, European equity markets underperformed their North American counterparts during the quarter. The FTSE 100 Index (United Kingdom) returned 6.7%, while the DAX 30 (Germany) declined 0.1% and the CAC 40 (France) rose 3.0%. China's Shanghai SE Index advanced by a substantial 12.7%.

In mid-July, the tone began to change on the bond markets. The slowing of the economy, especially the labour market, revived hopes that central banks would cut their key rates further. In response, the FTSE Canada Universe Bond Index advanced by 1.6%.

Sector allocation: Caution remains key

We continue to maintain a relatively conservative asset allocation, slightly overweighting alternative assets and fixed income relative to our targets. This allocation is intended to balance risks against investment opportunities that may arise in the short term.
Our base case still assumes that economic growth will be modest and that inflation will continue to normalize in the coming quarters. In such a context, we expect central banks to cut their key rates.

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ECONOMY AND FIXED INCOME

CENTRAL BANKS CUT INTEREST RATES IN RESPONSE TO SOFTENING EMPLOYMENT

In our last quarterly review, we pointed out that it was difficult to assess the direction of U.S. trade policy and its economic impacts. Inflation data indicated that tariffs were having a limited impact, and the labour market remained strong.

In the United States, a modest economic slowdown has begun, but the economy remains resilient. Of all the economic data, the employment figures show the most pronounced decline. We've already pointed out that job creation has fallen short of expectations for several months. Even worse, the number of jobs in the U.S. market declined in June for the first time since May 2020. It was mainly weak employment data that raised the prospect of rate cuts in the United States and justified the decision to cut the key rate by 25 basis points in September.

In the short term, the labour market slowdown has a greater impact on such decisions than do inflationary pressures. In fact, if we go by the Fed's economic projections and investor expectations, two more cuts should be announced by year-end. Although investors' attention has turned to the labour market, inflation figures shouldn't be overlooked. The U.S. Federal Reserve has a dual mandate: price stability and a healthy job market. Although the Fed members expect tariff-related inflation to be temporary, the price of goods is gradually rising as tariffs take effect. U.S. companies seem to be passing on some of the tariffs in the form of higher prices.

In Canada, the economic situation is bleaker than it is in the United States. As expected, tariffs affected annualized economic growth, which contracted by 1.6% in the second quarter. Forecasters were already calling for a decline, but it was greater than expected. Exports were the main reason, with the United States reducing its purchases from Canada.

The geopolitical uncertainty also adversely affected Canadian corporate earnings and investment. Before-tax earnings fell for the second consecutive quarter. Job creation also disappointed, with more than 100,000 jobs lost in Canada in July and August.

In short, the tariff war creates a chain reaction of falling exports, falling earnings, falling investment, falling employment, falling productivity and falling economic growth. In this context, it came as no surprise that the Bank of Canada cut its key rate by 25 basis points in September, a decision that was justified by three factors:

1. The labour market has softened.
2. Upward pressure on inflation has generally eased.
3. Canada has lifted most of its retaliatory tariffs.

Potential widening of credit spreads

Reflecting the dynamics previously outlined, the FTSE Canada Universe Bond Index returned 1.6% in the third quarter. Yields fell at the short end of the curve as bad news piled up on the labour front and investors priced in further rate cuts by central banks. That being said, the decline in yields was less pronounced for maturities exceeding five years, which are more affected by inflation expectations and concerns about budget deficits. Therefore, in terms of positioning, we remain cautious in our exposure to the medium- and long-term segments. Finally, credit spreads remain at historically low levels. As governments run record deficits and Canadian corporate earnings decline, logically credit spreads should widen.

KEY TAKEAWAYS

- We are seeing an **economic downturn** as tariffs take effect. Even so, indicators are signalling a slowdown rather than a recession.
- The **softening labour market** justifies further **key interest rate cuts.**
- The U.S. economy **remains resilient** despite interest rate hikes and now tariffs.
- Investors seem to have adopted the outlook that **tariffs will be manageable** for the economy.
- We continue to favour a **conservative asset allocation**, with a slight underweight in equities relative to our targets. This allocation is intended to balance risks against investment opportunities that may arise in the short term.

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CANADIAN, U.S. AND INTERNATIONAL EQUITIES

PRECIOUS METALS SHINE WHILE EUROPE AND ASIA SEE CONTINUED INTEREST

Canadian equities: Precious metals and banks take the spotlight

Canada's second consecutive quarter of strong returns was reflected in all our Canadian funds. The past few months have seen a meteoric rise in the prices of gold, silver, and securities related to these commodities. In response to uncertainty in global politics, the U.S. administration's cavalier approach to the Fed's historic independence, and the imposition of often arbitrary tariffs that could drive inflation back up in the United States, investors and central banks have been looking for safe havens.

As a result, gold and silver were up 16.7% and 30.2%, respectively, in the third quarter alone. Canada has many companies operating in this sector, including producers and royalty holders, and their stocks contributed significantly to the strength of the Canadian index. The gold subsector, which accounted for 12.7% of the S&P/TSX Index at the end of September, recorded an exceptional year-to-date return of 107.6%.

Our Canadian Equity Fund held two positions in the gold sector at the end of the quarter: Agnico Eagle Mines, an established producer that has operations in stable regions and has long been recognized for its operational excellence, and Franco-Nevada, which holds royalties on various mining properties around the world.

At 7.2% of the fund, these positions allowed us to benefit from the upside while maintaining a reasonable weight.

Given the historical volatility of commodities and the related securities, we favour a responsible approach in our portfolios, while benefitting from exposure to the subsector.

The Canadian banks continued to advance. In fact, they had a quarter that was surprisingly strong in several respects, along with earnings that beat analysts' expectations. Royal Bank (+15% on the quarter) announced earnings per share of $3.84, up 18% from a year earlier but, above all, higher than the consensus estimate of $3.32. Revenue also exceeded expectations, particularly in the capital markets segment, while loan loss provisions were lower than expected. Bank of Montreal presented a similar situation. Its earnings per share were $3.23 versus expectations of $2.96. Net interest income was up, loan losses eased after a challenging 2024, and the wealth management segment posted strong growth.

Discussions about the growing importance of artificial intelligence, in light of the ambitions of Open AI (owner of ChatGPT) in direct-to-consumer and business services alike, have shaken up a number of Canadian stocks. In particular, companies with exposure to the IT outsourcing and software sectors have struggled. CGI continued to decline, like the other leading IT consulting firms, primarily because of AI's impact on industry dynamics. Also affected were Constellation Software and Kinaxis, which offer software and solutions for niche sectors, and must also manage changes within their management teams.

Concerns that this new technology will put downward pressure on the price of IT services and software, combined with the macroeconomic uncertainty that continues to influence clients' investment decisions, contributed to the negative performance of these securities. That said, their earnings don't yet reveal any AI-related impact; rather, the companies have said they will use such technological advances to benefit their customers.

Our Canadian Small Cap Equity Fund had another strong quarter, with a net return of 14.9% on the strength of excellent stock selection. Year to date, the fund is up a net 28.4% with outstanding gains from 5N Plus (+130% year to date), Groupe Dynamite (+207%), Bombardier (+100%), Triple Flag Precious Metals (+90%) and Kraken Robotics, up 91.5% since it was added to the portfolio.

Kraken is benefitting from an increase in defence budgets worldwide, a trend that also partly explains the strength of Bombardier's share price. In line with our disciplined approach, we have taken profits gradually as they rise, reinvesting the proceeds in other high-conviction stocks.

As many of the surging stocks are Quebec-based, our Quebec Equity Fund also benefitted from these performances, with a net return of 19.2% since the beginning of 2025.

CANADIAN, U.S. AND INTERNATIONAL EQUITIES (CONTINUED)

American equities: The S&P 500 Index soars to new highs

The third quarter of 2025 was marked by strong equity gains in the United States in defiance of the usual seasonal weakness and the climate of continued uncertainty. In a feat no one would have predicted, the S&P 500 Index reached 23 all-time highs in the third quarter.

The rise of AI continued to fuel investor enthusiasm, propelling semiconductor stocks and supporting massive investments by the tech giants. This dominant theme helped the information technology and communications sectors record the best quarterly returns.

Also of note are the excellent returns on the stocks we hold, such as Alphabet (+38%), Oracle (+29%), and Broadcom (+20%), which have benefitted from the AI craze. In addition, the Magnificent Seven, by and large, outperformed the S&P 500 again during the quarter. At the same time, monetary easing provided additional support for securities in the utilities sector.

Conversely, the consumer staples sector was the worst performer during the quarter, with investors favouring more cyclical sectors. In addition, companies in the sector are seeing their margins come under increasing pressure owing to rising costs, partly because of tariffs. Even major players such as Walmart are not immune to this situation. Although the world's largest retailer still absorbs some costs in certain product categories, it has had no choice but to pass some of them on to its customers in others.

As we heading into the final quarter of 2025, all 11 sectors in the S&P 500 have positive year-to-date returns. Communications and information technology still have a clear lead, but it's important to note the strong performances by industrials and utilities, which reflect broader market strength. Industrial companies continue to benefit from defence spending, while utilities benefit from monetary easing and an increase in capital spending in the sector.

Our U.S. dividend strategy had a strong quarter with a 10.3% net return in Canadian dollars, primarily because of strong stock selection in health care, energy, and industrials, as well as exposure to Oracle and Broadcom. Its year-to-date return is 11.9%.

Our American Equity Fund had a solid quarter with a 7.8% net return in Canadian dollars. Underexposure to information technology and underperformance in health care and consumer staples offset the positive effects of stock selection in communications and industrials. The fund has a year-to-date return of 9.3%.

International equities: Europe and Asia are still appealing

The third quarter confirmed the trend that began earlier in the year: Developed markets outside the U.S. continued to offer attractive valuations, with a price-to-earnings ratio of 14 to 15x versus more than 22x for the S&P 500. This discrepancy encourages capital to flow into Europe and Asia in a context where volatility related to U.S. politics remains high. Our International Equity Fund benefitted nicely from this trend, and we continued the strategic adjustment initiated in previous quarters.

Our largest position, ASML, had a solid quarter with an increase of 22%. This Dutch company is the leader in the lithography technology required to manufacture the most advanced semiconductors, and it continues to benefit from robust AI-related demand and strategic relocation of technology supply chains. The company still enjoys a unique position, with a near-monopoly in EUV lithography technology, and its results exceeded expectations, with high margins and a strong order book. This stock remains a central pillar of our international portfolio.

Our positions in European and Japanese banks also contributed significantly to the quarterly return. The financial sector was up 14% in the past three months.

Banks benefitted from higher revenues from their capital markets and asset management operations, as the downward trend in global interest rates combined with generally low valuations to drive investor appetite for the sector.

We also initiated a position in DSV A/S, a Denmark-based global leader in transport and integrated logistics. The company is recognized for its cost discipline, ability to integrate acquisitions, and global diversification, which gives it superior resilience in economic cycles.

Its long-term outlook is supported by two major trends: relocation of supply chains and growing demand for global logistics solutions.

We also initiated a position in Alibaba, the Chinese ecommerce, cloud-computing, and AI giant offering the Qwen family of large language models.

CANADIAN, U.S. AND INTERNATIONAL EQUITIES (CONTINUED)

After several years of regulatory pressures and slowing growth, the company has returned to an attractive valuation and more disciplined capital allocation through share buybacks and a renewed focus on core businesses. Alibaba remains a key player in the Chinese and Asian digital economy, and we think its risk-return profile is now favourable.

In an environment where earnings growth outside the U.S. looks more sustainable, and European and Asian currencies have relative support, we think these adjustments strengthen the return potential of our international portfolio and, as with any portfolio, offer excellent diversification of growth sources.

KEY TAKEAWAYS

- Strength in precious metals buoyed the Canadian markets in the third quarter, with gold and silver surging 16.7% and 30.2%, respectively, as investors looked for safe havens in a context of uncertainty.
- Canadian banks surprised analysts with better-than-expected earnings in the quarter, as well as improved loan loss provisions.
- The S&P 500 defied seasonal logic by recording 23 all-time highs during the quarter, propelled in part by enthusiasm for AI and the Fed's monetary easing.
- Reasonable valuation multiples in developed markets outside the U.S. (14-15x versus more than 22x for the S&P 500) continued to support capital flows to Europe and Asia.

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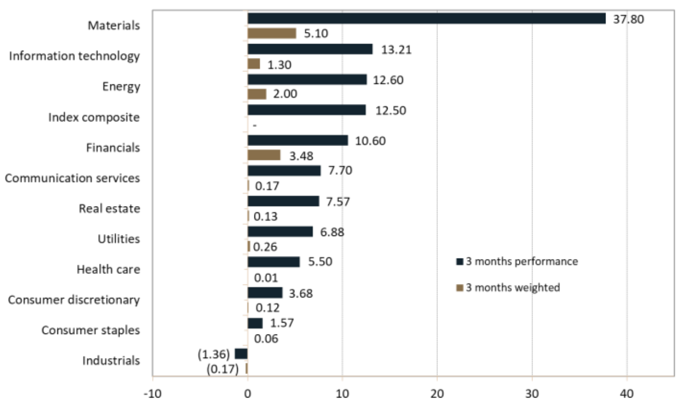
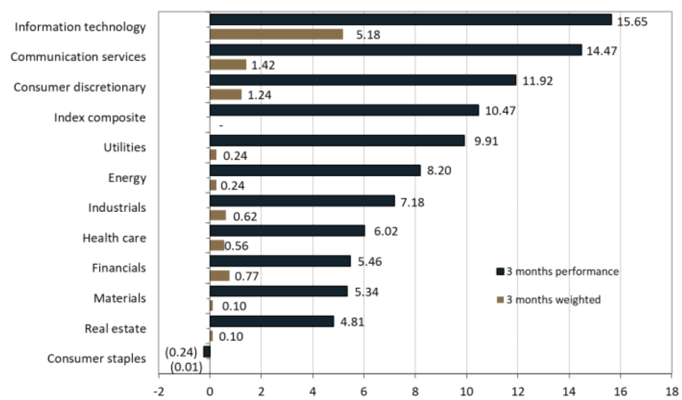
QUARTERLY REVIEW
SEPTEMBER 2025

SECTOR PERFORMANCE

Canadian Equities (S&P/TSX)



U.S. Equities (S&P 500)



SOURCE: Bloomberg. Returns in Canadian dollars, including dividends as at September 30, 2025.

ECONOMIC DATA AND CURRENCIES

STATISTICS AS AT SEPTEMBER 30, 2025								
CANADA			UNITED STATES			CURRENCIES		
Unemployment (August)	7.1%	↑	Unemployment (August)	4.3%	↑	USD / CAD	0.72	↑
IPC (August)	1.9%	↑	IPC (August)	2.9%	↑	USD / EUR	1.17	↓
3-month T-Bills	2.50%	↓	3-month T-Bills	3.93%	↓	JPY / USD	147.90	↓
5-year bonds	2.75%	↓	5-year bonds	3.74%	↓			
10-year bonds	3.18%	↓	10-year bonds	4.15%	↓			
S&P/TSX	30,023	↑	Dow Jones - Industrial	46,398	↑			
			S&P 500	6,688	↑			

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

SOURCE: Bloomberg.

MARKET RETURNS

TOTAL RETURNS IN CANADIAN DOLLARS AS OF SEPTEMBER 30, 2025					
	YTD	3 months	1 year	3 years	5 years
FTSE Canada 91 Day TBill Index	2.20%	0.71%	3.30%	4.28%	2.75%
BONDS					
FTSE Canada Universe Bond Index	2.98%	1.51%	2.93%	4.66%	-0.16%
FTSE Canada Short Term Overall Bond Index	3.54%	1.32%	4.21%	4.98%	1.88%
Eterna Adapted Private Wealth Index[1]	3.88%	1.61%	4.12%	5.08%	1.29%
FTSE Canada Mid Term Overall Bond Index	4.39%	2.05%	3.96%	5.18%	0.37%
FTSE Canada Long Term Overall Bond Index	0.63%	1.20%	-0.17%	3.40%	-3.40%
NORTH AMERICAN STOCK MARKETS					
Canada - S&P/TSX Composite	23.94%	12.50%	28.60%	21.31%	16.68%
United States - Standard & Poor's 500	11.10%	10.47%	21.21%	25.35%	17.52%
United States - Dow Jones Industrial Average	6.88%	7.96%	14.92%	20.03%	14.00%
INTERNATIONAL STOCK MARKETS					
United Kingdom - FTSE-100	22.47%	7.82%	21.66%	22.75%	15.87%
France - CAC-40	17.58%	5.18%	12.41%	18.45%	11.51%
Germany - DAX	31.55%	2.00%	34.33%	33.72%	14.44%
Japan – Nikkei-225	16.16%	10.70%	18.32%	19.67%	7.68%
Hong Kong – Hang Seng	29.30%	15.00%	30.79%	16.69%	3.59%
Australia - S&P/ASX 200	12.29%	6.58%	5.20%	12.42%	7.99%
CURRENCIES					
USD versus CAD	-3.23%	2.29%	2.92%	0.22%	0.89%

SOURCE: Bloomberg. NOTES: Returns over 3-year and 5-year periods are annualized.

[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.