MONTHLY LETTER - JULY 2023

So far, the summer is proving to be a positive one for stock markets. In Canada, July marked the second consecutive month of growth for the S&P TSX Index, with 2.6% return. We have also regained the peaks seen this year in February and April, but remain just over 6% behind the peak seen in March 2022, when the Central Bank of Canada initiated its tightening cycle. In the United States, the flagship S&P 500 Index rose for a fifth consecutive month, posting a performance of 3.2% in local currency, or 2.7% in Canadian dollars. The Dow Jones was another solid performer in July, returning 3.3% in U.S. currency; during the month, the index climbed for thirteen consecutive days, a streak not seen since 1987 before Black Monday.

In the United States, the earnings season has also begun, with some 51% of S&P 500 companies releasing their results for the second quarter of 2023. Overall, 80% of companies reported earnings per share that exceeded analysts' expectations. However, companies posted a -7.3% year-on-year decline for the quarter, marking the third consecutive quarter where the S&P 500 Index reported a drop in earnings.

On the bond market, all sectors and maturities posted negative returns this month, owing to the sharp rise in rates. For example, the benchmark 10-year rate in Canada went from 3.27% to 3.5%. The FTSE Canada Universe Bond Index registered a negative return of -1.1% in July, while the year-to-date advance is 1.4%. At these levels, yields have returned to the highs of March 2023, October and June 2022. We still believe that, at these levels, this is most likely the peak in the current economic cycle.

On the economic front, there were several data points that captured our attention in July. We begin with inflation, a positive surprise for the markets, with a greater-than-expected drop in both Canada and the United States. Canadian annual inflation was within the Bank of Canada's target range, at 2.8%. As noted in our last quarterly review, mortgage interest costs are still the biggest contributor to inflation. Interestingly, if we exclude this component, as well as food and energy, the two most volatile components in the CPI, inflation would have risen by 2.5% year-on-year and by only 1.6% on an annualized basis over the last three months. South of the border, year-on-year inflation fell to 3% in June; similarly in Canada, services and in particular rental costs account for the main source of inflation.

Despite the ongoing decline in inflation, the Bank of Canada and the U.S. Federal Reserve are still applying a restrictive monetary policy, raising rates again by 0.25%. Canada's key rate is now 5%, and the Bank of Canada justified its decision in light of the accumulation of evidence that excess demand and elevated core inflation are both proving more persistent. There was no announcement of a pause, but the new economic data will be assessed at each meeting. The U.S. scenario is similar, with rates rising to 5.50% while the Fed's press release also states that future decisions will depend entirely on the statistics to come.

Are rate hikes starting to affect household consumption? It would seem so. The latest Canadian retail sales figures for May indicate a timid 0.2% month-on-month increase. Statistics Canada's provisional results for June failed to show any growth over May. This means that, over the past 4 months, growth has been either negative or weak three times over. The same applies to the United States, where June's figures showed weak month-on-month growth of 0.2%, though this is entirely attributable to inflation, with sales volume remaining stable. Looking at year-on-year variation in U.S. retail sales volumes, growth in January was 7.8% year-on-year and is now just 1.5%.

A decline in consumer spending can also be seen in the economic growth figures for the second quarter of 2023. The first results released on the American side show that real GDP grew at an annualized rate of 2.4%. After growing by 4.2% in the first quarter, consumption was up by 1.6% in the final quarter; demand for services remains strong which, as previously mentioned, is reflected in inflation. The most surprising feature of this economic growth figure was the strength of business investment, at a time when ISM leading indicators showed signs of a slowdown and access to credit is increasingly difficult for companies.

Please note that we will not be publishing our monthly publication in August. We will be back in September with our quarterly publication and comments from our managers.

In the meantime, on behalf of the entire Eterna Financial Group team, we wish you a wonderful end of summer.

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

ETERNA PRIVATE LOAN FUND – IMPORTANT CHANGE NOTICE

On June 21, at a special meeting of Q8 Capital Fund Limited Partnership, in which Eterna Private Loan Fund is one of the investors ("limited partners"), the limited partners voted by 81.4% of the votes cast to dismiss the general partner 9418-0163 Québec Inc. At that time, Company 9491-3944 Québec was appointed as the new general partner. On July 14, the limited partners voted again, this time by 90.4% of votes cast, to terminate, effective August 1, the existing loan management contract in favour of X2 Capital Inc. At the July vote, the limited partners appointed a new manager, 9494-4279 Québec Inc. Paul Tardif of Eterna Financial Group Inc. is a shareholder and officer of this company and their new general partner. Like X2 Capital in the past, the new manager will now receive loan management fees of 1%. As a result, there will be no change in management fees payable by Eterna Private Loan Fund unitholders. Furthermore, no significant change in the management of Q8 Capital Fund Limited Partnership assets is envisaged in the immediate future.

Following these changes and the future dissolution of Q8 Capital Fund Limited Partnership, the Eterna Private Loan Fund's strategy is being modified to also allow the Fund to invest in private loans through a member company of Eterna Financial Group, which will administer the loans with support of a management team highly experienced in real estate financing. Fees will reflect current market conditions.

Any significant changes or notices required by applicable legislation will be communicated to you in due course.

We are pleased to announce that Maxime Bertrand Gilbert has joined the Eterna Investment Management team as Senior Equity Analyst. In addition to the CFA designation he obtained in 2019, Mr. Gilbert holds a bachelor's degree in market finance from HEC Montréal. He brings eight years' experience to the team, including seven years with Claridge, the private equity firm that represents the interests of Stephen Bronfman's family. Mr. Gilbert will join our Equity Research and Analysis team, headed by Philippe Côté, and will cover the consumer and utilities sectors. He will also support our Quebec equity managers.

We are delighted to welcome him to our team!

STATISTICS ON JULY 31ST, 2023

CANADA		
Unemploy. rate (June)	5,4 %	↑
C.P.I. (June)	2,8 %	↓
3 months treasury bills	5,05 %	↑
Bonds 5 years	3,90 %	↑
Bonds 10 years	3,50 %	↑
S&P/TSX	20 627	↑

UNITED STATES		
Unemploy. rate (June)	3,6 %	↓
C.P.I. (June)	3,0 %	↓
3 months treasury bills	5,40 %	↑
Bonds 5 years	4,18 %	↑
Bonds 10 years	3,96 %	↑
Dow Jones - Industrial	35 560	↑
S&P 500	4 589	↑

CURRENCIES		
$ USA / $ CAN	0,76	↓
$ USA / € Euro	1,10	↓
¥ Yen / $ USA	142,29	↑

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 JULY 31ST, 2023	YTD	3 months	6 months	1 year	3 years*	5 years*
FTSE Canada 91 Day TBill Index	2.55%	1.08%	2.17%	4.01%	1.53%	1.54%
BONDS						
FTSE Canada Universe Bond Index	1.37%	-2.74%	-1.66%	-1.83%	-4.50%	0.57%
FTSE Canada Short Term Overall Bond Index	0.91%	-1.33%	-0.45%	0.06%	-1.14%	1.11%
Indice adapté gestion privée Eterna [1]	0.84%	-2.29%	-1.26%	-0.98%	-2.27%	1.05%
FTSE Canada Mid Term Overall Bond Index	0.71%	-3.73%	-2.49%	-2.60%	-4.00%	0.91%
FTSE Canada Long Term Overall Bond Index	2.66%	-3.87%	-2.64%	-3.83%	-9.02%	-0.45%
NORTH AMERICA STOCK MARKETS $ CAN						
Canada - S&P/TSX	8.43%	0.78%	0.95%	8.23%	11.73%	7.92%
United States - Standard & Poor's 500	17.40%	7.35%	12.18%	16.13%	13.01%	12.46%
United States - Dow Jones	5.62%	1.86%	4.22%	13.67%	11.94%	9.56%
INTERNATIONAL STOCK MARKETS $ CAN						
United Kingdom - FTSE-100	9.27%	-1.99%	4.38%	17.00%	11.92%	3.57%
France - CAC-40	15.81%	-2.99%	5.98%	28.97%	12.82%	5.30%
Germany - DAX	18.11%	0.13%	8.84%	35.29%	6.96%	4.10%
Japan - Nikkei-225	14.02%	6.93%	9.90%	15.00%	3.75%	3.21%
Hong Kong - Hang Seng	-1.19%	-1.30%	-8.68%	3.04%	-7.31%	-6.48%
Australia - S&P/ASX 200	1.03%	0.10%	-6.56%	5.66%	4.91%	1.55%
CURRENCY						
USD versus CAD	-2.69%	-2.67%	-0.87%	3.09%	-0.55%	0.28%

* 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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