MONTHLY LETTER - OCTOBER 2023

As of this writing, we are deep into the quarterly earnings season for U.S. companies and so far, 49% of S&P 500 companies have released their third-quarter results. Of these, 78% reported earnings per share that exceeded analysts' expectations, and if this trend continues, it will be the first quarter of year-on-year earnings growth reported by the index since the third quarter of 2022. However, these positive results and a resilient U.S. economy were not enough to curb the ongoing stock market correction.

The S&P 500 fell by 2.1% in October, the third consecutive month of decline; we need to look back to the start of the pandemic, between January and March 2020, to spot three consecutive months of downturn. Canada is in a similar situation, where the S&P TSX index dropped by 3.2% this month. Alongside these two indices, the monthly performances were equally negative for the world's main stock markets: -3.8% for the FTSE 100 (UK), -3.5% for the CAC 40 (France), -3.7% for the DAX 30 (Germany) and -2.9% for the Chinese stock market.

Following September's surge in interest rates, the bond market recorded a positive performance in October, fulfilling its protective role during a stock market downturn. The FTSE Canada Universe Bond Index returned 0.37%. The corporate bond sector was hit by widening credit spreads, which expanded during the month; this situation is very similar to that of the stock market, with investors identifying an increasing degree of risk in Canadian companies with shrinking profits. In the wake of several central bank meetings in October, the signs point to a pause in interest rate hikes. Historically, bond markets performed positively 100% of the time when they enter a pause cycle.

On the macroeconomic front, there appears to be a growing divergence between the major economies. On one hand, the U.S. is demonstrating great resilience to interest rate hikes, while the Eurozone and the U.K. show more signs of slowdown. In Canada, it seems that investors are realizing that high immigration rates mask a sluggish economy.

U.S. economic growth rebounded impressively in the third quarter, with real GDP growing at 4.9% annualized. This was the strongest performance since autumn 2021. The main contribution comes from surprisingly strong consumer spending by American households, despite falling incomes. Americans have reduced their savings rate to 3.8% of disposable income, down from an average of 5% in the previous two periods. This rebound looks set to be short-lived, however, as consumers, government and business can no longer spend at the same pace.

The Bank of Canada announced another pause in interest rate hikes, recognizing that it takes six to eight quarters for rate hikes to impact the economy; the first hikes are starting to bite. In its Monetary Policy Report, the Bank lowered its economic growth forecasts to 1.2% in 2023, 0.9% in 2024 and 2.5% in 2025. The issue is that current population growth is between 2.5% and 3%. The Bank of Canada is thus predicting negative per capita economic growth for the next three years, which has only occurred once between 1990 and 1992. Although slower growth is forecast, the Bank expects a short-term rise in inflation, as there has been insufficient progress on core inflation; the problem still lies in services inflation. Finally, we would like to point out that GDP figures by industry showed zero economic growth in August. This follows negative growth in July and preliminary zero-growth data for September.

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GUARANTEED INVESTMENT CERTIFICATES (GICS) VERSUS ALTERNATIVES

ADVANTAGES OF GICs

- **Security**. GICs deliver peace of mind. Your initial investment and any interest earned are 100% guaranteed. GICs are insurable under the Canada Deposit Insurance Corporation Act.
- **Stability**. GICs offer stability in the face of financial market fluctuations.
- **Guaranteed interest rates**. GIC interest rates are guaranteed for a predetermined period.
- **Wide range of products**. Choose from a variety of terms and interest rate options to suit your specific needs.

DISADVANTAGES OF GICs

- **Illiquid product**. GICs require you to lock in the amount invested for a fixed period, usually without the option to redeem before maturity, subject to costly penalties.
- **No interest paid while held**. Interest on GICs is generally only paid at maturity.
- **Direct taxation**. GIC holders in non-registered accounts must pay tax on interest earned during the taxation year, even if it has not yet been received. The CRA considers interest to count as income as soon as it is earned, not after it is paid.
- **Unfavourable tax rate**. GIC interest income is treated as ordinary income (taxed at 100%). This is different from dividend income and capital gains, which benefit from more favourable taxation.
- **Relatively low rate of return**. Historically, GICs offer lower yields than many investment-grade bond categories.
- **Inflation risk**. Inflation may be higher than the return offered by the GIC during the holding period. Indeed, real GIC returns have historically been negative.

ALTERNATIVES TO GICs

- **Treasury bills**. Same rate of return as a GIC with a shorter term (1 year or less). Can easily be sold on the market.
- **Corporate bonds**. Greater liquidity than a GIC.
- **High-dividend stocks**. Lower tax rate than a GIC, plus a higher long-term yield.
- **Alternative assets**. Higher absolute returns than GICs.

These alternatives are liquid enough to benefit from any downturn in the financial markets.

INVESTMENT PORTFOLIOS AND GICs

Investment portfolios must be considered holistically or viewed as a package. A sound investment allocation can significantly reduce the portfolio's idiosyncratic risk without neglecting its return.

Contrary to popular belief, investing in GICs is not risk-free and involves an opportunity cost. Moreover, a GIC doesn't offer any genuine portfolio diversification that cannot be achieved through other financial products. There are several options to suit each client's specific requirements.

In conclusion, we leave it to your investment manager to maximize your portfolio in line with your objectives. Market knowledge and experience mean that your investments are carefully tailored to suit your specific financial needs.

STATISTICS ON OCTOBER 31ST, 2023

CANADA		
Unemploy. rate (September)	5,5 %	-
C.P.I. (September)	3,8 %	↓
3 months treasury bills	5,06 %	↓
Bonds 5 years	4,13 %	↓
Bonds 10 years	4,06 %	↑
S&P/TSX	18 873	↓

UNITED STATES		
Unemploy. rate (September)	3,8 %	-
C.P.I. (September)	3,7 %	-
3 months treasury bills	5,46 %	↑
Bonds 5 years	4,85 %	↑
Bonds 10 years	4,93 %	↑
Dow Jones - Industrial	33 053	↓
S&P 500	4 194	↓

CURRENCIES		
$ USA / $ CAN	0,72	↑
$ USA / € Euro	1,06	-
¥ Yen / $ USA	151,68	↓

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 OCTOBER 31ST, 2023

	YTD	3 months	6 months	1 year	3 years*	5 years*
FTSE Canada 91 Day TBill Index	3,87 %	1,29 %	2,39 %	4,59 %	1,95 %	1,73 %
BONDS						
FTSE Canada Universe Bond Index	-1,09 %	-2,43 %	-5,11 %	0,01 %	-4,78 %	0,25 %
FTSE Canada Short Term Overall Bond Index	1,66 %	0,75 %	-0,59 %	2,40 %	-0,98 %	1,26 %
Indice adapté gestion privée Eterna [1]	0,36 %	-0,48 %	-2,76 %	1,11 %	-2,42 %	0,99 %
FTSE Canada Mid Term Overall Bond Index	-1,61 %	-2,30 %	-5,94 %	-0,87 %	-4,60 %	0,55 %
FTSE Canada Long Term Overall Bond Index	-4,90 %	-7,36 %	-10,95 %	-3,12 %	-9,96 %	-1,51 %
NORTH AMERICA STOCK MARKETS $ CAN						
Canada - S&P/TSX	0,06 %	-7,72 %	-7,00 %	0,43 %	9,85 %	7,96 %
United States - Standard & Poor's 500	13,55 %	-3,28 %	3,83 %	12,08 %	11,83 %	12,20 %
United States - Dow Jones	4,06 %	-1,48 %	0,35 %	4,98 %	11,30 %	9,12 %
INTERNATIONAL STOCK MARKETS $ CAN						
United Kingdom - FTSE-100	4,65 %	-4,22 %	-6,13 %	15,58 %	12,72 %	4,52 %
France - CAC-40	7,72 %	-6,98 %	-9,76 %	19,59 %	12,29 %	5,93 %
Germany - DAX	7,73 %	-8,79 %	-8,68 %	21,62 %	6,58 %	5,00 %
Japan - Nikkei-225	4,89 %	-8,01 %	-1,63 %	11,66 %	-1,17 %	2,07 %
Hong Kong - Hang Seng	-11,53 %	-10,47 %	-11,63 %	18,93 %	-9,88 %	-6,25 %
Australia - S&P/ASX 200	-8,14 %	-9,07 %	-8,98 %	-0,36 %	2,44 %	1,92 %
CURRENCY						
USD versus CAD	2,37 %	5,19 %	2,38 %	1,84 %	1,37 %	1,07 %

* 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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