QUARTERLY REVIEW - MARCH 2023

ASSET SUMMARY AND ALLOCATION

In the first quarter of 2023, each month was marked by a special event. In January, the financial markets were optimistic as economic indicators showed the economy to be more resilient than forecasters had anticipated. Some financial players suggested that the steep rise in interest rates in 2022 would not lead the economy into recession after all. Instead, February brought pessimism, with inflation remaining higher than expected, suggesting that central banks would have to continue to raise interest rates to curb inflation further. And in March, the failure of three U.S. banks, as well as troubles at Europe's Credit Suisse, contributed to a loss of confidence in the stability of the banking system amid concerns about spillover to other financial institutions.

There is no doubt that current volatility and uncertainty are pervasive and it's very difficult to establish a clear and predictable scenario for the coming months in this context. This short-term economic uncertainty represents a necessary step in returning inflation to target and solidifying the foundation for healthy medium-term growth.

Therefore, we are defensive in our investments. New money is gradually invested in the stock markets when interesting opportunities appear. In fact, the downturn in Canadian bank stocks is a good example of an attractive opportunity for our investors; Canada's banking system is more regulated, with stricter capitalization requirements, and banks are more geographically and segmentally diversified. In this highly volatile environment, bonds and money markets are still interesting, as noted in our December quarterly review.

European stock markets were the winners for returns in the first quarter of the year. In local currencies, the French CAC 40 Index gained 13.4%, the German DAX 40 Index 12.3% and the UK FTSE 100 Index 3.6%. While expectations were for a recession at the beginning of the year, it seems that the milder winter and uncertainty surrounding the Russia-Ukraine war may be more benign to economic growth. The U.S. stock market also delivered positive returns for the first three months of 7.5% in local currency and 7.4% in Canadian dollars. The Canadian S&P TSX returned 4.6%. The Canadian stock market is overweight in energy and financials. However, the 5.7% decline in WTI oil and reduced confidence in the banking system produced returns of -2.3% and only +1.7% for their sector.

Unlike 2022, bonds served as a safe haven during volatile market conditions at the beginning of the year. The FTSE Canada Universe Bond Index is up 3.2% since the beginning of January as interest rates have fallen across the curve.

- **The economy and labour markets remained particularly resilient at the beginning of the year in spite of the steep rise in interest rates. This could indicate a delay in the onset of recession rather than a sign that recession will be avoided; policy rate hikes have increasing impact on the economy.**
- **Problems in the U.S. and European banking systems could hasten the economic slowdown; lending is already more restrictive.**
- **Different paths for the Bank of Canada and the U.S. Federal Reserve.**
- **Internationally, Europe escaped the anticipated recession in early 2023 and the Chinese economy has recovered from the withdrawal of containment measures.**
- **The short-term economic uncertainty is a necessary step to return inflation to target and strengthen the foundations for healthy medium-term growth.**
- **We continue to hold a higher level of short-term investments to benefit from recent interest rate hikes in this market sector.**

While the economy is much more resilient than initially anticipated, keep in mind that the full impact of interest rate increases has yet to reach the economy and normally takes about 18 months; we marked the first year of this rate hike cycle in March.

The current situation demands considerable restraint; we must remain realistic about the economic context and not become entrenched in an overly optimistic view where, as we see now, general economic growth forecasts are being upgraded, or in an overly pessimistic view and believe that the bank system is collapsing. The bottom line is probably somewhere in between these two extremes; we are seeing pockets of economic weakness, but also very strong indicators.

Furthermore, we believe that the Bank of Canada is probably showing the most composure right now. In March, it decided against raising interest rates after eight consecutive hikes and indicated that it is allowing some leeway to assess the delayed impact of hikes over the past year. The Bank of Canada highlighted slowing household spending and foreign demand (exports) as emerging pockets of weakness. Consumer spending has been resilient so far; households have managed to sustain their lifestyles due to excess savings accumulated during the pandemic. However, it's unrealistic to expect Canadian households to maintain the same lifestyle with interest rates at 2007 levels, when Canadians had 45% less debt. The erosion of excess savings also explains why credit card debt has ballooned to a record level of more than $100 billion, according to credit agency Equifax; this represents an annual increase of 15%. Total debt also increased by 6% year-over-year as well as insolvencies and missed payments. Eventually, the decline in consumption will further impact corporate profits and equipment investment. On the other hand, employment is undoubtedly one of the strongest indicators. In January and February, Canada created as many as 172,000 jobs, much higher than the usual growth for a full year.

In the United States, despite the proximity of our economies, the Federal Reserve decided to take a different path with further interest rate hikes. Indeed, on March 23, the Fed increased its key rate by 0.25% and foresees another round of interest rate hikes by the end of the year. In its statement, the Fed mentions that the U.S. banking system is strong and resilient, but that the recent developments are likely to tighten credit conditions, depress economic activity growth and eventually affect employment and inflation. In other words, it will be harder for households and businesses to borrow from financial institutions and, as mentioned, as accumulated excess savings disappear, consumption will slow and the consequences above will follow.

The most important thing to remember about Europe is that the anticipated economic disaster was averted at the beginning of the year. Favourable weather averted an energy crisis on the Old Continent, and natural gas prices have returned to pre-pandemic levels. In these circumstances, the European Central Bank revised its inflation forecast downward, mainly due to lower energy prices, and revised upwards economic growth for 2023. However, the bank continued its monetary policy tightening by opting for another 0.5% interest rate hike in March.

In China, the move away from zero-COVID policy has benefited the Chinese economy, with a rebound in consumer spending, industrial production and investment in January and February. Moreover, at the National People's Congress in early March, China reaffirmed its goal of expanding the economy further through domestic consumption and decreasing its dependence on exports. Beijing set an annual economic growth target of 5% this year, well below pre-pandemic growth rates.

Ultimately, even though liquidity problems at financial institutions have made headlines recently, inflation is likely to maintain its influence on financial market sentiment. The battle against goods inflation is very encouraging, but the struggle over services prices has yet to begin. The next few months will be challenging from a macroeconomic perspective and volatility should continue to be a part of our daily lives for quite a while, which is why we favour a more defensive portfolio.

In terms of fixed income strategies, our portfolios are well positioned to weather the storm of recent events. At the end of December, we mentioned that: Interest rate levels improved in 2022 and now offer better coverage in case of high stock market volatility. This means that holding bonds is an increasingly attractive option for a balanced portfolio. The current rates have likely peaked in the current economic cycle and we anticipate a decline in rates as the year progresses. However, we remain cautious about bond credit. During a recession, credit spreads tend to widen more than the rate decrease of a federal bond of the same maturity, thus underperforming the latter. Despite the possibility of widening credit spreads, we have no concerns about the financial strength of our municipal and corporate bonds.

As such, our bond strategies had a slightly longer duration than the benchmark and were underweight in credit, adding value through lower interest rates and wider credit spreads.

Over the short term, we may see some consolidation in interest rates, but we remain confident over the longer term that interest rates will be lower than they are now, mainly at the short end of the curve.

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Senior Manager, Fixed Income
Portfolio Manager

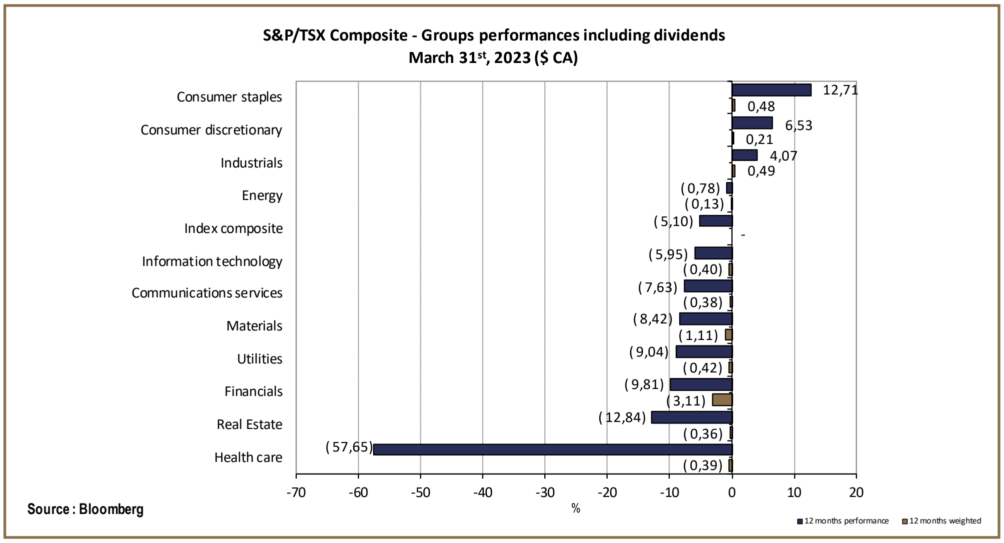
CANADIAN EQUITIES

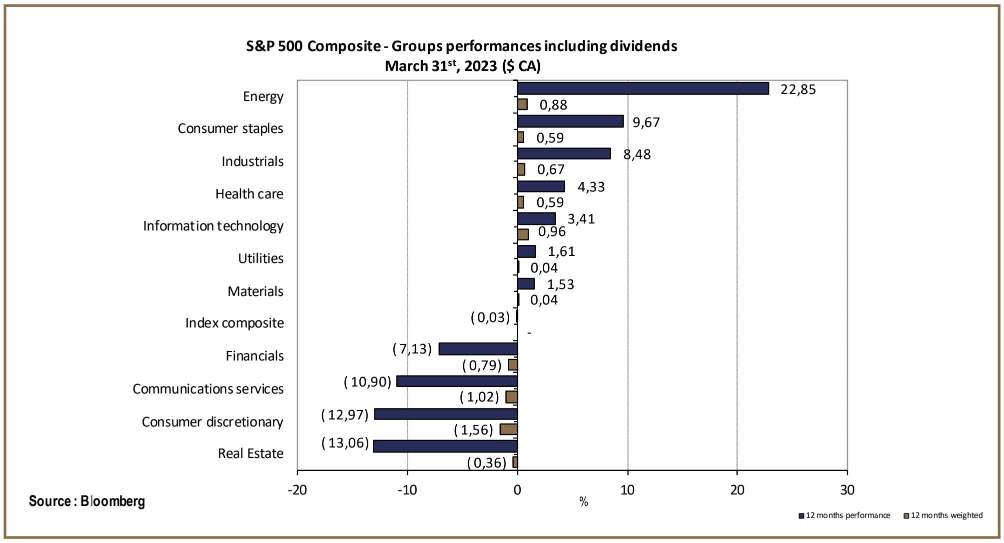
2023 started off on a high note with a +7.4% return in January for the Canadian S&P/TSX Composite Index. The markets then faded, delivering negative returns in Canada of -2.5% and -0.2% in February and March, respectively. These returns led to a +4.6% performance of the S&P/TSX for the first quarter of 2023. With this latest performance, the index is now about 9% below its historical high of March 2022. The Eterna Canadian Equity Fund has slightly outperformed this index with a gross quarterly return of 5.1%.

Information technology (+26.0%), materials (+8.1%), and consumer staples (+7.9%) were the best performers year-to-date. These figures also reflected in our strategy, with two technology stocks serving as top performers. Constellation Software, a technology company aggregator and the 7th largest position in the Eterna Canadian Equity Fund (4.1% as of March 31, 2023) gained 22.7% during the quarter after a slight decrease in the position at month end. OpenText Corp, a software and solutions vendor for organizational data management with a 3.0% weight in our portfolio, was the best performer (+30.9%). This stock contributed positively by 0.9%, after concluding the acquisition of Micro Focus and further demonstrating the strategic nature of this transaction. These performances were complimented by those of Stantec (+22.1%) and Brookfield Renewable Partners (+25.9%). The latter is a Canadian company that owns and operates renewable energy assets. Last month, it entered into an agreement with partners to acquire Origin Energy for $750 million, with a view to expanding its Australian presence.

On the negative side, only the energy sector (-2.3%) underperformed this quarter. Its shortfall was driven by oil prices, which fell 17% during the quarter before recovering several points by the end of March. Financials finished slightly higher, despite the financial struggles of regional banks in the U.S. (Silicon Valley Bank and Signature Bank) and international banks (Credit Suisse and Deutsches Bank). On our side, Toronto-Dominion Bank (-6.7%), Tourmaline Oil Corp (-9.3%), and Magna International Inc (-7.1%) were the most negative contributors to portfolio performance during the quarter. We are confident that the credit quality of Canada's major banks is solid in the face of this economic downturn, and their situation is nowhere near that of the world's troubled banks. On the contrary, the soundness of Canadian banks, in the face of Canada's tighter regulatory regime, is expected to ensure their long-term standing in the global banking arena.

The first quarter of 2023 was a two-part story, with the frenzy of the new year quickly being replaced with a cautious approach by investors, who fear persistent inflation and potential for a more serious economic downturn. For now, our strategy is to remain prudent. We may eventually modify the portfolio adding more weight to quality securities that could benefit from economic rebound and potential decline in interest rates.





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GLOBAL, INTERNATIONAL AND U.S. EQUITIES

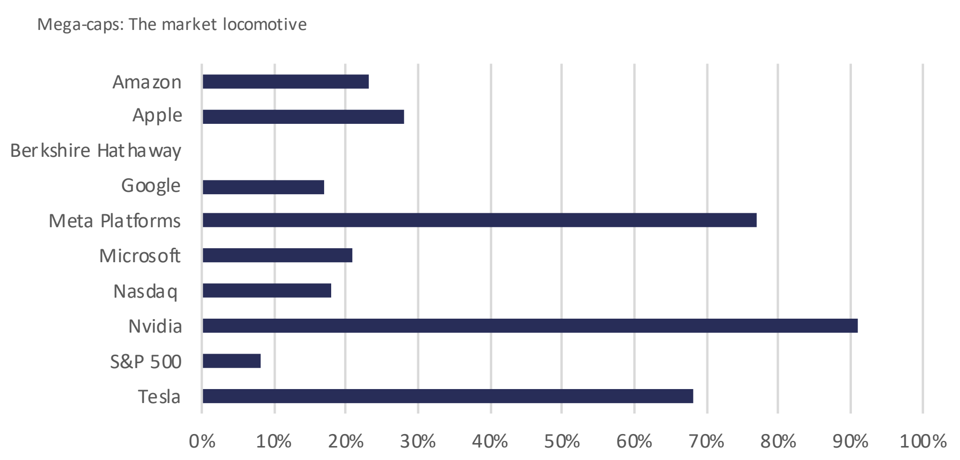
The financial market was on a roll during the first quarter of 2023. At the beginning of the year, upbeat economic news of reduced inflation drove the markets higher. However, these positives reversed in February and early March, which forced central banks into an aggressive anti-inflation position. The potential for a 50-basis point increase per Federal Reserve meeting was highlighted. Furthermore, the banking sector was hit by the U.S. receivership of Silicon Valley Bank and the Swiss government's acquisition of Credit Suisse.

The banking crisis and the associated credit crunch spurred a historical 3-day interest rate decline of over 1% for bonds maturing in two years. In this environment, with less aggressive central banks and economic uncertainty, investors sought refuge in large-cap stocks.

Global and U.S. Funds

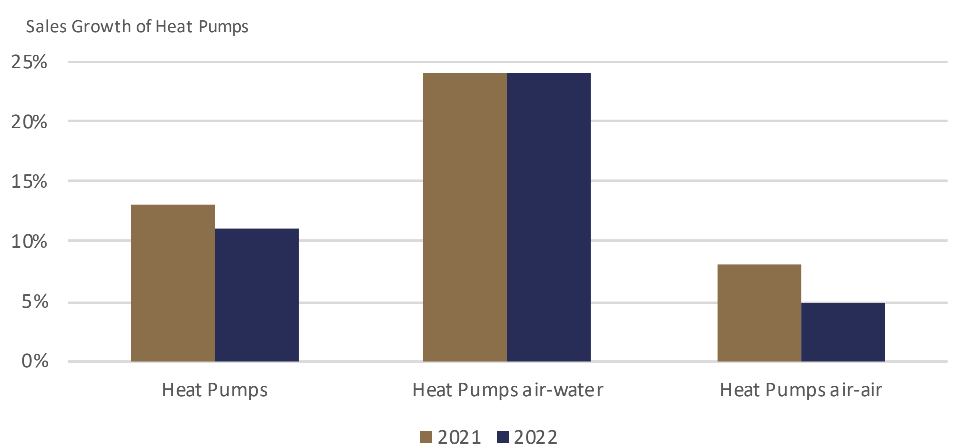
As shown in Chart 1, seven of the eight largest stocks in the index outperformed key indicators, except for Berkshire Hathaway, a conglomerate. This trend mirrors late 2021, where large-cap technology companies are seen as immune to economic fluctuations and benefit from the artificial intelligence craze.

GRAPHIC #1 - PERFORMANCE OF LARGEST COMPANY IN THE INDEX S&P 500



Source : Bloomberg and Nordis Capital

GRAPHIC #2 - HEAT AND ENERGY CONSUMPTION



Source : International Energy Agencye and Nordis Capital

International Fund

In contrast to the U.S., where seven of the top eight stocks outperformed the major equity indices, the largest international stocks did not perform as well.

We believe that a rebalance toward industrials is necessary to achieve the energy transition in the coming years, but we expect a more attractive valuation of these companies before heavily investing in them.

We have a pragmatic approach to climate change and social inequality in portfolios. Our objective is to invest in companies with growth potential that are both undervalued and sustainable over the long term.

One good example of this trend is the heat pump sector. High temperatures are driving demand for home cooling, while energy uncertainty is driving the need for reduced energy consumption. As Chart 2 shows, the demand for heat pumps is increasing and is expected to continue to grow for some time.

Comments by:

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

STATISTICS ON MARCH 31TH, 2023

CANADA		
Unemploy. rate (February)	5,0 %	-
C.P.I. (February)	5,2 %	↓
3 months treasury bills	4,40 %	↓
Bonds 5 years	3,02 %	↓
Bonds 10 years	2,90 %	↓
S&P/TSX	20 100	↓

UNITED STATES		
Unemploy. rate (February)	3,6 %	↑
C.P.I. (February)	6,0 %	↓
3 months treasury bills	4,69 %	↓
Bonds 5 years	3,57 %	↓
Bonds 10 years	3,47 %	↓
Dow Jones - Industrial	33 274	↑
S&P 500	4 109	↑

CURRENCIES		
$ USA / $ CAN	0,74	↓
$ USA / € Euro	1,08	↓
¥ Yen / $ USA	132,86	↑

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 MARCH 31TH, 2023

	3 months	6 months	1 year	3 years*	5 years*
FTSE Canada 91 Day TBill Index	1,12 %	2,13 %	2,81 %	1,10 %	1,34 %
BONDS					
FTSE Canada Universe Bond Index	3,22 %	3,32 %	-2,01 %	-1,67 %	0,89 %
FTSE Canada Short Term Overall Bond Index	1,82 %	2,50 %	0,70 %	0,02 %	1,33 %
Indice adapté gestion privée Eterna [1]	2,64 %	3,20 %	0,46 %	-0,42 %	1,40 %
FTSE Canada Mid Term Overall Bond Index	3,85 %	4,21 %	0,00 %	-1,15 %	1,46 %
FTSE Canada Long Term Overall Bond Index	4,72 %	3,66 %	-7,17 %	-4,39 %	-0,20 %
NORTH AMERICA STOCK MARKETS $ CAN					
Canada - S&P/TSX	4,55 %	10,79 %	-5,17 %	18,02 %	8,80 %
United States - Standard & Poor's 500	7,44 %	13,43 %	-0,03 %	16,73 %	12,24 %
United States - Dow Jones	0,88 %	14,86 %	6,20 %	15,46 %	10,04 %
INTERNATIONAL STOCK MARKETS $ CAN					
United Kingdom - FTSE-100	5,64 %	22,49 %	7,31 %	12,29 %	3,89 %
France - CAC-40	14,72 %	38,40 %	16,83 %	16,30 %	5,60 %
Germany - DAX	13,84 %	40,51 %	15,21 %	14,10 %	3,67 %
Japan - Nikkei-225	5,98 %	15,60 %	-0,02 %	4,68 %	1,87 %
Hong Kong - Hang Seng	2,44 %	16,20 %	0,26 %	-6,65 %	-6,61 %
Australia - S&P/ASX 200	0,13 %	13,31 %	-7,33 %	13,95 %	2,66 %
CURRENCY					
USD versus CAD	-0,28 %	-2,26 %	8,08 %	-1,31 %	0,94 %

* 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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