ETERNA
FINANCIAL GROUP

QUARTERLY REVIEW - SEPTEMBER 2023

ASSET SUMMARY AND ALLOCATION

While the summer got off to a good start, the third quarter ended on a more difficult note for financial markets. As we mentioned in our June review, there are more pockets of weakness appearing in the economy, and our message remains the same: the swift and severe tightening of monetary policy by central banks will further slow the economy. As a result, we expect the full impact of these rate hikes to be increasingly evident from this autumn onwards, 18 months after the announcement of the first rate hike in March 2022.

Canada's economic outlook deteriorated over the summer. The S&P/TSX Canadian stock market index returned -2.2% in the third quarter and 3.4% year-to-date. Only two sectors delivered a positive performance during the quarter: Healthcare, thanks to the stock market rally of Tilray Brands in the cannabis sector, and Energy, on the back of rebounding oil prices in the wake of reduced supply.

In the United States, the S&P500 continues to benefit from its strong exposure to technology and artificial intelligence. In contrast to Canada, its performance was also fuelled by better-than-expected financial results and economic data for the second quarter. Over the past three months, the S&P500 has returned -3.3% in local currency, for 13.1% year-to-date.

Internationally, European stock markets rebounded strongly at the end of 2022 and in the first quarter of 2023. This rebound stalled in the second quarter and actually waned over the summer. Poor macroeconomic data and rising oil prices dimmed the economic outlook, adversely affecting stock markets. During the summer period, Germany's DAX 30 Index fell by -4.7%, France's CAC 40 Index by -3.6% and the UK's FTSE 100 Index gained 1%.

Interest rates on the bond market have risen in recent months, as central banks continued to raise rates. With strong inflationary pressures and a robust labour market, the Bank of Canada ended its pause, while the U.S. Federal Reserve is still considering a higher final rate. As a result, the FTSE Canada Universe Bond Index posted a negative return of -3.87% in the third quarter and year-to-date performance is now back in negative territory at -1.46%. On the Canadian bond market, only the short-term segment of the curve posted a positive return. We see increasing risk in credit spreads, which continue to narrow despite the economic slowdown and declining earnings growth.

In this highly volatile environment, short-term bonds and money markets are still extremely attractive, considering the rates on offer. We are staying on the defensive in our investments, gradually investing new inflows as opportunities arise on the stock markets. We are confident that this short-term economic uncertainty is, in a way, a stepping stone to getting inflation to target and strengthening the foundations for healthy medium-term growth.

- More and more pockets of weakness are appearing in the economy; rapid, high levels of monetary tightening by central banks will continue to slow the economy, and the full impact of these rate hikes should increasingly be felt from this autumn.
- Several other ominous factors could weigh on economic growth this autumn: excess household savings are almost exhausted, credit conditions are tightening, insolvencies are on the rise, job vacancies are declining, and student loan interest payments resume in October (U.S.).
- Canada's strong population growth belies the gloomy state of our economy: shrinking real GDP per capita and declining consumer spending, among other factors.
- Key factors behind the economic resilience are a still-strong labour market and surprisingly robust consumer spending, boosted by surplus savings accumulated during the pandemic. In Canada, immigration also remains strong.
- Central banks once again adopted a tougher tone over the summer; higher rates for an extended period.
- This short-term economic uncertainty is a necessary step toward returning inflation to target and strengthening the foundations for healthy medium-term growth.

ECONOMY AND FIXED-INCOME SECURITIES

Inflation is still the primary source of concern for financial players. Rising energy prices over the summer drove up total inflation in July and August, which did nothing to reassure investors. On the upside, core inflation (excluding energy and food) continues to slow. We are still convinced that the final push to reduce inflation to 2% is through a recession. Service inflation remains anchored, and historically, for this component to slow sharply, you need a recession.

It wasn't just the weather that was gloomy this summer, but the Canadian economy as well. The tide has quickly turned, and despite the currently strong demographic growth, the Canadian economy's weakness is increasingly undeniable. While the Bank of Canada's forecasts indicated 1.5% economic growth in the second quarter, we saw instead a 0.2% contraction at an annualized rate; adjusted for high immigration, real GDP per capita fell by 3.3% at annualized rates. Over the last twelve months, real GDP per capita has fallen by 2%. This level is historically consistent with both recession and the easing of interest rates. A final negative point, first-quarter economic growth was downgraded from an estimated 3.1% to 2.6%. This means that the interest rate hike announced in June, predicated on excess demand, may not have been necessary after all, as we emphasized in the June review. Compounding the economic gloom, we are seeing increasingly sluggish job growth, while the working-age population is expanding rapidly, driving up the unemployment rate. Finally, the real estate market recovery we witnessed at the start of the year is faltering again in the wake of recent interest rate hikes.

So far, the U.S. economy continues to grow, with stronger-than-expected economic data. Consensus is pointing to accelerated third-quarter growth, with consumer spending still buoyant and a solid job market. Interestingly, according to Bloomberg, the "Barbenheimer" phenomenon, associated with the release of the Barbie and Oppenheimer movies, and the monster success of Taylor Swift and Beyoncé's concerts, added 0.5% to U.S. third-quarter economic growth. Some forecasts actually downgraded for the fourth quarter of 2023, partly because Taylor Swift's tour is leaving the U.S. for the international arena. However, there are several other troubling factors that could impact economic growth this autumn. These include high interest rates, excess household savings nearly exhausted, tightening credit conditions, rising insolvencies, falling job vacancies and student loan interest repayments resuming in October. Of the 44 million Americans with student loans, around 70% will have to adjust spending to resume interest payments on their loans.

To conclude, we should take a moment to understand the slowdown in China's post-pandemic economic recovery, even with the fiscal and monetary stimulus packages that were announced. China is an increasingly important contributor to global economic growth, and historically speaking, 2023 is set to be a very bad year for Chinese growth. China is in the process of reorienting its economy toward domestic consumption, to reduce its dependence on exports. However, retail sales are slowing considerably this year, while international trade is falling in response to weak global demand and geopolitical tensions. Moreover, in recent decades, real estate has been a strong driver of economic growth. The downturn in the property market since 2021 is worrisome for Chinese households, who are limiting their consumption and increasing their savings to safeguard property investments. We should also consider the unfavourable demographic situation; the rise in the unemployment rate for young people is so steep that the government decided to stop publishing this economic data. Finally, the State is continuing to tighten its control, particularly over companies.

On the bond front, investors are still focusing on the central banks' message of higher rates for longer. The latest Bank of Canada minutes made it clear that the Bank is carefully weighing its words to prevent the market from anticipating rate cuts. Not surprisingly, interest rates climbed this summer, with Canada's 10-year rate rising from 3.27% to 4.02%.

Investors also ignored declining corporate profits, which helped narrow credit spreads. At this point, we are increasingly uncomfortable with low credit spreads, and believe we are being compensated less and less for extra risk. We are adopting a defensive stance by underweighting corporate bonds. We are also maintaining our longer duration positioning than the benchmark, by favouring lower rates as the economy cools. We maintain our bias toward lower rates, because we believe that with all the problems mentioned above, as well as record Canadian household debt, higher rates for longer are unsustainable for our economy.

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

CANADIAN EQUITIES

Interest rate hikes dominated the stock market environment in the 3rd quarter of 2023. On the Canadian front, several factors attracted our attention, including the underwhelming results from Canadian banks, a weak Canadian dollar against the greenback and political wrangling with India. Even so, energy, and more specifically oil and gas, helped salvage the fortunes of the Canadian index relative to other global indices, albeit finishing in negative territory.

Our Canadian equity portfolio finished slightly below the 3rd quarter Canadian index, largely due to our underweight in the energy sector and overweight in high-dividend sectors that are negatively impacted by rate hikes, such as telecommunications and utilities. For the year to date, we continued to outperform the index through stock selection in Industrial Products (Stantec and Finning) and Materials (First Quantum and Teck Resources).

We introduced two new stocks to the portfolio, CAE and Andlaeur Healthcare. In the case of CAE, the company has a unique position worldwide. It is the world's largest manufacturer of flight simulators for both civil and defence markets, as well as the leader in pilot training. We are currently seeing a worldwide increase in defence budgets, while pilot training is as critical as ever, as airlines remain short-staffed; two positive trends for CAE's future operations. Andlaeur is active in logistics and transport of medical products, specializing in refrigerated transport. Dominant in Canada, the company is expanding in the United States following two major acquisitions. We also consolidated positions in utilities and pipelines, eliminating Emera and increasing our stakes in Enbridge (following a discount financing), Fortis and Brookfield Renewable Energy.

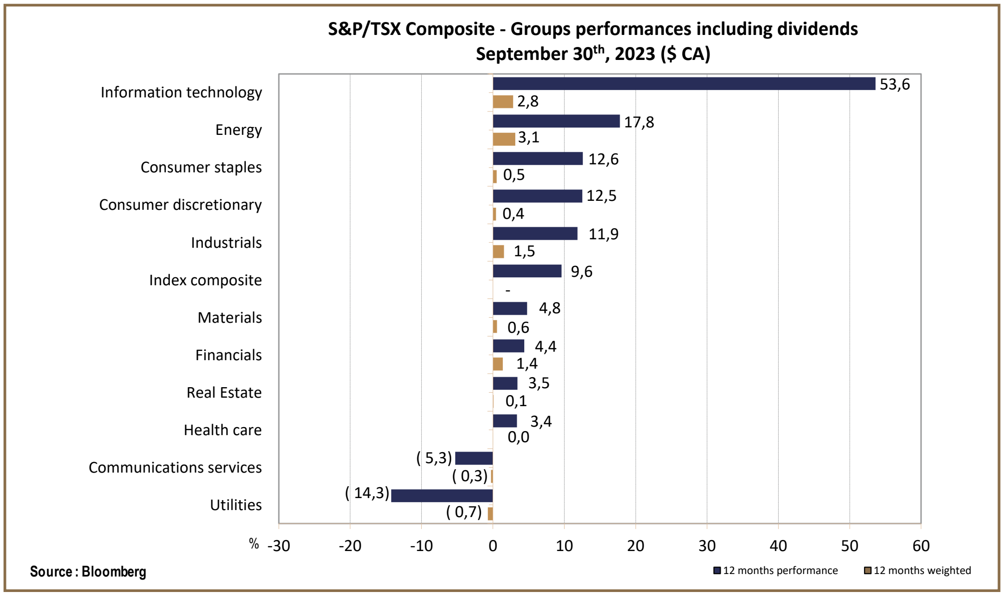
Our strategy remains cautious, despite negative pressure on stocks deemed more defensive and high-dividend-yielding, which respond negatively to rate expectations that could remain high for longer. In an uncertain economic climate, we favour these quality stocks, which trade at valuation measures at the lower end of their historical range, while offering high dividend yields.

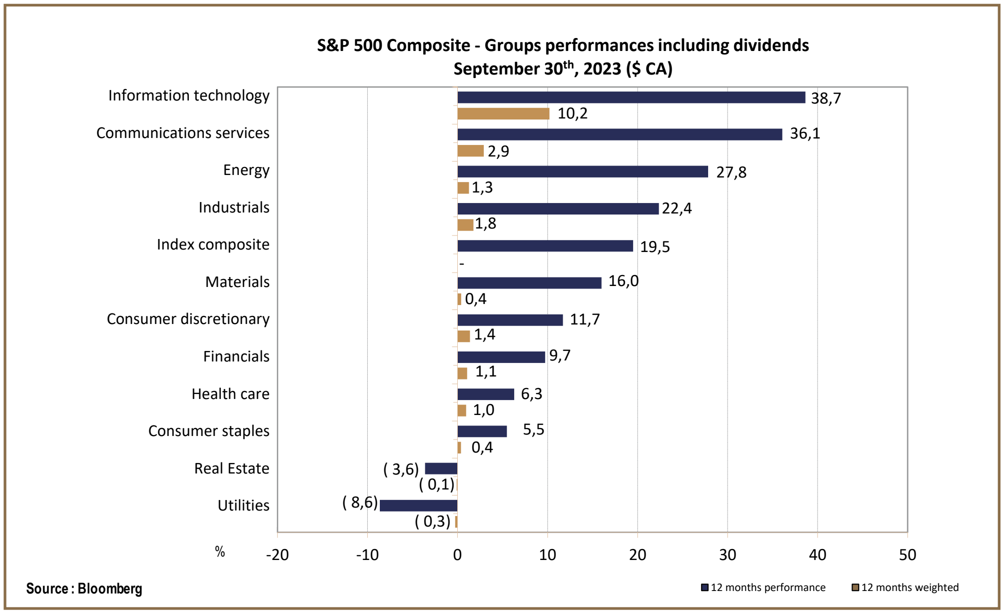
The Quebec equity portfolio finished the 3rd quarter generally in line with our Canadian equity portfolio, with a significant overweight in industrial products, which made a positive relative contribution and a more defensive, high-performance composition in information technology. For the year to date, Quebec equities performed well, with a 3% relative advance on the Canadian index, lower weights in sectors more affected by rising interest rates, and value-added stock selection.

Meanwhile, small- and mid-cap stocks performed in a cautious environment, which adversely affected this segment, apart from those in the energy sector. The leading U.S. index, the Russell 2000, lost 5.5% in the last three months and now shows a slightly higher return for the year 2023 to date (+1.4%). Our small-cap portfolio was not immune, with several stocks suffering from fears of rising financing costs and economic slowdown. Our valuation measures signal several buying opportunities in quality stocks, and we are aggressively repositioning the portfolio to benefit from investors' medium-term negativism in these stocks. The Fund's return for the year is slightly below 0% but compares favourably with the TSX small-cap index. It remains below the S&P/TSX in 2023, after outperforming the index in 2021 and 2022.

Philippe Côté
Vice-President and Portfolio Manager

Mickaël Carrier
Equity Analyst





GLOBAL AND INTERNATIONAL EQUITIES

In contrast to 2022, the third quarter was our first negative quarter of the year. The enthusiasm for artificial intelligence stocks and higher interest rates delayed the market's rise.

We favour companies that are geared to tomorrow's challenges, such as the energy transition, with nuclear power company Cameco and energy efficiency firm Carrier Global, and natural resource companies like Holmen, in wood and Marubeni, a Japanese conglomerate. We are also defensively positioned with responsible investment leaders like Carrefour, whose revenues are unlikely to be affected by an economic slowdown.

We outperformed the benchmark during the quarter. Our top stock picks were Carrier Global, Airtel Africa, Adecoagro, an Argentine food producer which benefits from the weak Argentine peso to export, Montauk Renewables, which converts landfill waste into natural gas, and Oji, a Japanese pulp and paper company. The less sound choices were two energy infrastructures, Algonquin Power and NextEra Energy Partners, which were adversely affected by rising interest rates.

We view the economic future with caution, as we are confronted with a double threat of rising interest rates and soaring oil prices. This tricky combination comes as fiscal stimulus measures provided for by law are at risk of losing their expected impact.

Our forecasts indicate that inflation should remain above the 2% mark in 2024, although an economic slowdown is on the horizon. Soaring oil prices are expected to continue to fuel this galloping inflation. Meanwhile, food costs will continue to burden household budgets, with uncertain agricultural yields and turbulence affecting the global supply chain.

Caution is the watchword in this complicated economic climate, and it is crucial to adopt appropriate investment and financial management strategies to navigate these troubled waters.

North American Equities

As with global equities, this year's third quarter was the first to record a negative performance for U.S. equities.

We favour companies that are actively preparing for future challenges. This includes major players like Cameco in nuclear power, and Owens Corning, in energy efficiency. We also invest in natural resources, such as Weyerhaeuser in the timber sector.

We also have positions in semiconductors, with Intel taking a growing and essential role in supporting artificial intelligence. We are also adopting a defensive approach, by investing in stocks like Walmart and Kroger, where earnings are relatively unaffected by economic slowdowns.

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

STATISTICS ON SEPTEMBER 30TH 2023

CANADA		
Unemploy. rate (August)	5,2 %	↑
C.P.I. (August)	3,4 %	↓
3 months treasury bills	4,91%	↑
Bonds 5 years	3,69 %	↑
Bonds 10 years	3,27 %	↑
S&P/TSX	20 155	↑

UNITED STATES		
Unemploy. rate (August)	3,7 %	↑
C.P.I. (August)	4,0 %	↓
3 months treasury bills	5,28 %	↓
Bonds 5 years	4,16 %	↑
Bonds 10 years	3,84 %	↑
Dow Jones - Industrial	34 408	↑
S&P 500	4 450	↑

CURRENCIES		
$ USA / $ CAN	0,76	↓
$ USA / € Euro	1,09	↓
¥ Yen / $ USA	144,31	↓

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 SEPTEMBER 30TH . 2023						
	YTD	3 months	6 months	1 year	3 years*	5 years*
FTSE Canada 91 Day TBill Index	3,39 %	1,22 %	2,25 %	4,43 %	1,79 %	1,66 %
BONDS						
FTSE Canada Universe Bond Index	-1,46 %	-3,87 %	-4,53 %	-1,36 %	-5,14 %	0,05 %
FTSE Canada Short Term Overall Bond Index	0,88 %	-0,12 %	-0,92 %	1,56 %	-1,23 %	1,08 %
Indice adapté gestion privée Eterna [1]	-0,25 %	-1,58 %	-2,81 %	0,30 %	-2,68 %	0,83 %
FTSE Canada Mid Term Overall Bond Index	-1,96 %	-3,74 %	-5,60 %	-1,63 %	-4,86 %	0,40 %
FTSE Canada Long Term Overall Bond Index	-4,62 %	-9,50 %	-8,92 %	-5,58 %	-10,44 %	-1,75 %
NORTH AMERICA STOCK MARKETS $ CAN						
Canada - S&P/TSX	3,38 %	-2,20 %	-1,13 %	9,54 %	9,88 %	7,27 %
United States - Standard & Poor's 500	13,19 %	-0,96 %	5,35 %	19,50 %	10,79 %	10,93 %
United States - Dow Jones	2,85 %	0,24 %	1,95 %	17,11 %	9,25 %	8,12 %
INTERNATIONAL STOCK MARKETS $ CAN						
United Kingdom - FTSE-100	6,56 %	0,44 %	0,87 %	23,56 %	11,74 %	3,75 %
France - CAC-40	8,97 %	-4,35 %	-5,01 %	31,46 %	10,90 %	4,37 %
Germany - DAX	9,26 %	-5,48 %	-4,03 %	34,84 %	3,45 %	3,68 %
Japan - Nikkei-225	7,17 %	-5,06 %	1,12 %	16,90 %	-0,42 %	0,99 %
Hong Kong - Hang Seng	-10,20 %	-3,53 %	-12,34 %	1,86 %	-8,56 %	-7,68 %
Australia - S&P/ASX 200	-5,30 %	-3,24 %	-5,43 %	7,16 %	3,47 %	1,14 %
CURRENCY						
USD versus CAD	0,17 %	2,53 %	0,45 %	-1,82 %	0,64 %	1,02 %

* 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

LAW 25: NEW OBLIGATIONS FOR THE PROTECTION OF PERSONAL INFORMATION

On September 23, the majority of the rules in The Act to modernize the applicable standards for the protection of personal information, commonly known as Law 25, came into effect. This law was adopted in September 2021 by the Quebec National Assembly, and became effective on September 22, 2022.

Law 25 is designed to modernize the protection of personal information for both public and private companies. These new provisions enhance the authority of the Access to Information Commission (Commission d'accès à l'information or CAI), as well as the confidentiality and transparency measures of organizations subject to the Act. They will also enable organizations to assume greater responsibility, while granting individuals greater control over their personal information.

Among the new obligations arising from this law:

- The appointment of a Privacy Officer;
- Maintaining an incident log and the obligation to disclose to the CAI in the event of a confidentiality incident;
- Adoption of a privacy governance framework;
- Privacy risk assessment where required by law;
- Anonymization and destruction of personal information;
- New obligations for consent and transparency in managing personal information;
- The right to portability, which allows individuals to receive personal information held by a company.

Eterna is committed to maintaining an adequate framework for protecting personal information and is dedicated to ongoing compliance with new obligations and all applicable privacy laws.

Eterna takes the management of customer information very seriously. We follow a professional and transparent approach to the collection and use of this information. We only collect information that is necessary for our operations and required by the competent authorities. This information, which is crucial to offering personalized products and services, is updated and protected at all times.

Eterna regularly updates its policies and procedures, which are summarized on its website. Our employees are regularly trained and sensitized to the protection of personal information. Moreover, a Data Protection Officer has been appointed to oversee the governance of personal information. If you have any questions or concerns, you may contact this person at the following address:

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