ETERNA
FINANCIAL GROUP

MONTHLY LETTER - OCTOBER 2024

Volatility indices pursued their upward trend in October, which reflected growing investor concern about financial markets. Several factors have contributed to this volatility in recent weeks:

1. Adjusted expectations for future U.S. rate cuts. Forecasters expected more aggressive rate cuts compared to recent statements by U.S. Federal Reserve governors. As a result, bond markets rebalanced and interest rates rose in October.
2. The ongoing Middle East turmoil has increased oil prices as we foresee possible disruptions in production.
3. The U.S. elections and the Trump trade. The markets are increasingly looking ahead to a Trump victory, which some fear will result in another wave of inflation, considering his proposed tariffs and tax cuts. This outcome is mainly negative for interest rates, which have increased.

On top of these three factors, we also note that the third-quarter earnings season is underway in the U.S., investors are juggling economic data on whether the economy is still going strong or if the labour market is slowing, and finally, the Chinese government is ramping up its economic stimulus announcements. Faced with all these uncertainties and volatility, the leading stock market indices are declining this month.

In October, the S&P 500 returned -0.9% in local currency. The Canadian S&P TSX index returned 0.9%, outperforming the U.S. index thanks to greater weighting in Energy and Materials in Canada, which respectively returned 4.8% and 3.7%. Europe's main indices posted declines: -1.5% for the FTSE 100 (UK), -3.7% for the CAC 40 (France) and -1.3% for the DAX 30 (Germany). The Shanghai Se index fell again in China, with a -1.7% performance, in spite of economic stimulus initiatives that were deemed too cautious.

As interest rates climbed back up the yield curve, it was no surprise that the bond market experienced a disappointing month, with a -1% return for the FTSE Canada Universe Bond Index. Along with the above-mentioned factors causing volatility, bond markets are still concerned that the major U.S. deficit will create upward pressure on interest rates. We still believe that there will be a divergence in monetary policy between the United States and Canada, with the Bank of Canada pursuing a more aggressive easing.

On the economic front, our focus is on the Bank of Canada's recent decision to lower its key interest rate by 0.50% to 3.75%. We have to look back at 2001 to see a cut of this scale occurring outside of a recessionary period. This is the fourth consecutive cut and was largely anticipated by investors. Inflation has fallen below 2%, the Canadian labour market is cooling, and economic growth is below the Bank of Canada's expectations. Between now and the end of 2024, the central bank's message remains clear: expect further interest rate cuts, and the extent of these cuts will depend on new economic data. At the time of writing, the market expected a 50% probability of a further 0.50% cut in December and a 50% probability of a 0.25% cut. The objective is to bring the key rate down as quickly as possible to its neutral rate (±2.75%); the neutral rate being the key rate that keeps inflation at its target (2%) and the economy at its potential.

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

The art of forecasting is just slightly better than random

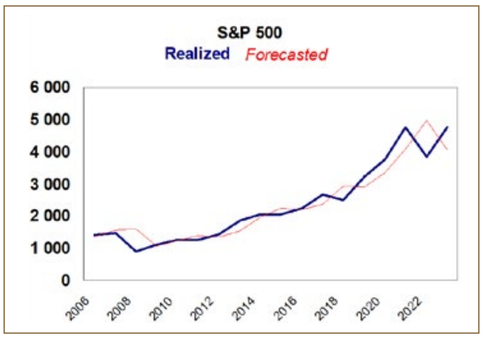
Ben Shalom Bernanke, Chairman of the U.S. Federal Reserve from 2006 to 2014.

Methodology

The consensus forecast of U.S. strategists at the start of the coming year was considered and compared with what actually happened year-end for every year since 2006, i.e., for 18 years

Observations

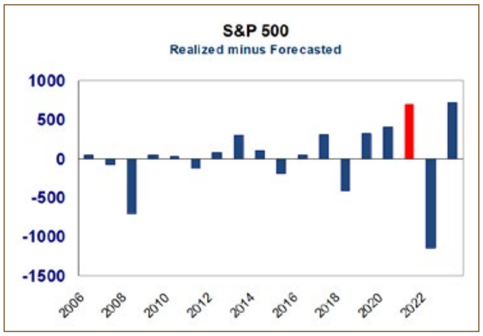
1. Consensus forecasts of long-term trends over the entire period appear to have been relatively favourable.



However, as the market has grown over the years, it is understandable that absolute spreads have also increased.

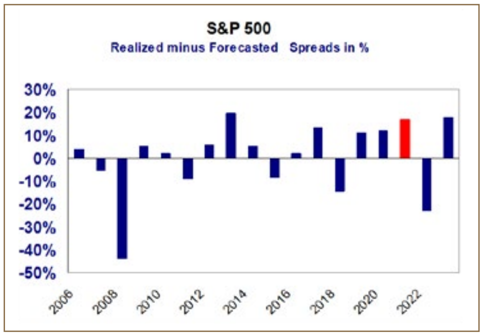
2. If the spreads indicate a substantial deterioration in forecast accuracy over

For 2021: a forecast of 4,074 vs. actual of 4,766, i.e., a difference of 692.



To better estimate these spreads, it is preferable to use percentages.

For 2021: a forecast of 4,074 vs. actual of 4,766, i.e., a difference of 692 divided by the 4,074 initially forecast, i.e., a gap of 17%, which indicates that consensus has underestimated reality.



Note: a positive number above zero indicates that the market ended the year at a higher level than forecast at the beginning.

This last example shows that, overall, the batting average of strategists did not deteriorate during the period under review.

However, we must admit that while the average spread over the whole period was low, at +0.7% (+3.3% excluding 2008), it was highly volatile from one year to the next. Indeed, even excluding the 2008 financial crisis year with its -47.8%, spreads have ranged from +19.8% in 2013 to -22.9% in 2022.

Conclusion

Strategists, bolstered by expert analysts, made fairly accurate predictions about mid-term trends. However, predicting year-to-year changes was tricky, to say the least.

This illustrates the fact that predicting market behaviour from one year to the next is akin to Mr. Bernanke's thinking, as quoted at the beginning of this report.

It is therefore more advantageous to focus on the long term, choosing the best companies for integration into a diversified portfolio of 30–50.

For your information, the latest consensus forecast for the end of 2024: 5,469 for the S&P 500.

Important caveat: These observations were based on historical data, which are no guarantee of the future.

Data source: Bloomberg

NOTE: This text was originally published on Les Affaires https://www.lesaffaires.com/opinions/moyenne-au-baton-des-strategistes-pour-le-marche-des-actions/

Pierre-Dominique Lussier
Vice-President and Senior Advisor

STATISTICS ON OCTOBER 31ST, 2024

CANADA		
Unemploy. rate (September)	6,5 %	↓
C.P.I. (September)	1,6 %	↓
3 months treasury bills	3,55 %	↓
Bonds 5 years	3,02 %	↑
Bonds 10 years	3,22 %	↑
S&P/TSX	24 157	↑

UNITED STATES		
Unemploy. rate (September)	4,1 %	-
C.P.I. (September)	2,4 %	↓
3 months treasury bills	4,54 %	-
Bonds 5 years	4,16 %	↑
Bonds 10 years	4,28 %	↑
Dow Jones - Industrial	41 763	↓
S&P 500	5 705	↓

CURRENCIES		
$ USA / $ CAN	0,72	↑
$ USA / € Euro	1,09	↑
¥ Yen / $ USA	152,03	↓

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, 2024

	YTD	3 months	1 year	3 years*	5 years*
FTSE Canada 91 Day TBill Index	4,27%	1,20%	5,12%	3,60%	2,41%
BONDS					
FTSE Canada Universe Bond Index	3,21%	1,20%	11,34%	-0,09%	0,46%
FTSE Canada Short Term Overall Bond Index	4,70%	1,52%	8,16%	2,01%	1,92%
Indice adapté gestion privée Eterna [1]	4,26%	1,32%	9,59%	1,32%	1,53%
FTSE Canada Mid Term Overall Bond Index	3,57%	1,02%	11,72%	0,22%	0,91%
FTSE Canada Long Term Overall Bond Index	0,53%	0,94%	15,76%	-3,21%	-1,89%
NORTH AMERICA STOCK MARKETS $ CAN					
Canada - S&P/TSX	18,24%	5,30%	32,06%	8,05%	11,33%
United States - Standard & Poor's 500	27,53%	4,53%	38,45%	13,39%	16,57%
United States - Dow Jones	18,60%	3,58%	29,26%	11,67%	12,63%
INTERNATIONAL STOCK MARKETS $ CAN					
United Kingdom - FTSE-100	15,00%	-1,13%	22,14%	9,82%	7,12%
France - CAC-40	0,85%	-1,11%	9,99%	4,40%	5,75%
Germany - DAX	17,87%	4,44%	32,73%	8,74%	8,86%
Japan - Nikkei-225	13,95%	-0,29%	26,50%	4,44%	5,05%
Hong Kong - Hang Seng	26,21%	18,68%	19,87%	-3,46%	-4,24%
Australia - S&P/ASX 200	8,88%	2,24%	25,07%	3,04%	4,31%
CURRENCY					
USD versus CAD	5,22%	0,91%	0,43%	4,00%	1,14%

* 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

ETERNA FINANCIAL GROUP

MONTRÉAL
2000 McGill College Ave, Suite 2210
Montréal (Quebec) H3A 3H3

Tel.: 514 908-6000
Fax: 514 908-6001

QUÉBEC
801 Grande Allée Ouest, Suite 210
Québec (Quebec) G1S 1C1

Tel.: 418 692-9292
Fax: 418 266-1002