

ASSET SUMMARY AND ALLOCATION

The second quarter was not quite as strong and broad-based as the first quarter. We should remember that the previous quarter saw record performances in several stock markets: S&P TSX (Canada), S&P 500 and Dow Jones (U.S.), Stoxx 600 (Europe) and Nikkei (Japan).

Over the past three months, the U.S. stock market continued to set records, while the S&P 500 and NASDAQ indices were buoyed by the explosive growth of Nvidia and artificial intelligence-related stocks.

In contrast, several markets saw declines, including Canada, Europe and Japan. European stock markets failed to appreciate the strong performance of far-right parties in the European Parliament elections. The French market was particularly affected as President Emmanuel Macron called for early elections and alliances to slow the rise of the political right. In Canada, the markets remain volatile, but the recent decline is consistent with the federal government's vote in favour of a capital gains tax hike. Previously, Canadians who realized capital gains only paid tax on half the gain. This new measure would increase the inclusion rate to two thirds for the portion of the gain exceeding \$250,000

for individuals and \$0 for corporations and management companies. As a result, it appears that investors with large unrealized gains on stocks were able to profit from the June 24 deadline to dispose of high-yielding stocks and be taxed at the old 50% inclusion rate.

As mentioned, the U.S. stock market remained buoyant, with the S&P 500 and NASDAQ indices recording gains of 4.3% and 8.3% respectively in local currency. In Canada, the S&P TSX returned -0.5%, with only materials and consumer staples closing in positive territory. In addition, the quarterly performance of the major European stock indices was mostly disappointing: 2.7% for the FTSE 100 (UK), -8.9% for the CAC 40 (France) and -1.4% for the DAX 30 (Germany). Finally, the Chinese stock market has returned to negative territory, as the Shanghai SE index ended the second quarter with a return of -1.4%.

The Bank of Canada set the ball rolling among G7 countries with its first rate cut of 0.25% and interest rates in the short end of the yield curve declined, delivering a return of 0.86% for the FTSE Canada Universe Bond Index. The corporate bond segment is still the best performer, owing to a lower risk premium. Even with the

highly volatile bond market and generous interest rates currently offered on GICs, it is more advantageous to purchase a discounted bond and hold it to maturity, instead of locking an amount into a GIC for a set period of time.

As you have probably noticed, U.S. equities have outperformed other developed markets such as Canada, Europe and Japan in recent years. One reason for this outperformance is a bias toward growth stocks over dividend-paying value stocks. In fact, since the early 1900s, almost half of the S&P 500's performance was attributable to dividends paid to shareholders. In recent years, however, dividends have fallen to just 15% of returns. This trend reversal can be partly explained by the prevailing environment of low interest rates and stable, low inflation. The economic environment is now changing, with higher interest rates and higher inflation. We believe the new economic climate should be more favourable to dividend stocks and to our investment philosophy. In the following sections, you will see that, while the economic environment has been less conducive to our management style, we have still managed to generate value for our clients.

- **Growth stocks outperform value dividend stocks.** Since the early 1900s, nearly half the S&P 500's return is attributable to dividends paid to shareholders. In recent years, the share of returns explained by dividends has fallen to just 15%.
- The Bank of Canada got the ball rolling among G7 countries with an **initial cut of 0.25%**, followed by the European Central Bank. **Further cuts** are expected in 2024.
- The **Canadian economy** is expected to remain **weak** in the short term, with the pace of immigration slowing and our monetary policy among one of the most restrictive in the developed world.
- The situation is quite different in the United States, where the **economy has been more resilient** to interest rate hikes and has recorded stronger growth.
- Particular focus must be placed on the **labour market**. If it is not as strong as it appears, there could be difficulties ahead.

The Bank of Canada set the ball rolling among the G7 countries with its first 0.25% cut in the key interest rate on June 5. The accompanying press release mentions the progress achieved by inflation in recent months and that monetary policy no longer needs to be so restrictive. In other good news, Governor Macklem mentioned at the press conference that strong population growth has loosened the Canadian labour market, with fewer and fewer job vacancies; this is welcome news as wage growth is expected to slow. This decision was no surprise to investors; a rate cut was fully expected in June or July at the latest. Forecasters are currently expecting two more rate cuts in Canada by the end of the year, which we believe is achievable. Arguments in favour of two more rate cuts include:

- 1) Inflation within target and continued improvement
- 2) A smaller supply of job openings
- 3) A weaker-than-expected economy

In economic terms, first-quarter growth in 2024 was restricted to an annualized rate of 1.7%. The central bank expected growth of 2.8%, while economists were looking for 2.2%. Moreover, economic growth for the last quarter of 2023 was revised down sharply to just 0.1%. Domestic demand supported growth in the first quarter. We must bear in mind, however, that this demand is still being driven by record immigration. Adjusted on a per capita basis, domestic demand is slower than population growth for a seventh consecutive quarter. Against this backdrop, we don't foresee a strong rebound in growth, as the pace of

immigration intake is set to slow, and our monetary policy is still one of the most restrictive in the developed world.

On June 6, it was the European Central Bank's (ECB) turn to announce its first rate cut. However, the tone of the press release was somewhat less positive than that of the Bank of Canada. Indeed, the ECB mentioned that, despite progress on inflation, tensions remain high and inflation is likely to stay above target well into 2025. The central bank was reassuring, however, in pointing out that companies are increasingly absorbing wage increases by reducing profit margins instead of raising prices to consumers. This is a positive observation from an inflationary point of view, but it could limit the performance of European stock markets. Forecasters currently expect two more interest rate cuts in Canada before the end of the year.

The situation is different in the United States, where the economy has weathered interest rate hikes more successfully and recorded stronger growth than in other developed countries. As already mentioned in our previous reviews, the substantial U.S. budget deficit has supported this growth. This means that the Federal Reserve can be more patient before embarking on a rate-cutting cycle. For these reasons, the Fed announced on June 12 that it would keep interest rates at current levels until inflation eases. Governors are forecasting one rate cut by the end of the year, while investors expect two.

Our neighbours to the south have been paying a lot of attention lately to the job market and household consumption. The job market is very strong when it comes to the business survey. No less than 1.2 million

jobs have been created since the beginning of the year. However, Jerome Powell points out that this figure may be slightly overstated. The household survey showed job losses and a rising unemployment rate. Moreover, full-time employment is falling by about 1% year-over-year, the sharpest decline outside of a recession. If the labour market is not as strong as it seems, it could lead to a major vicious cycle. First, incomes fall and purchasing power declines, leading to weaker consumption and loan defaults. If consumption slows, we can reasonably expect lower corporate profits. On the positive side, companies are not reporting very short-term problems; in the latest earnings season, recessions and layoffs were not mentioned as frequently. However, we see a slowdown in retail sales growth and consumers are quietly adjusting their behaviour. Walmart, Target and McDonald's have all announced price cuts, as they recognize that consumers are increasingly selective in their purchases.

This economic analysis suggests that monetary policy will begin to ease in the United States this year, and that both Canada and Europe will continue to lower interest rates. Interest rate levels currently provide excellent protection in the event of high stock market volatility. For a balanced portfolio, holding bonds is still extremely attractive. However, we remain cautious about corporate credit. Corporate earnings could come under pressure in the near future, and we believe we are not being sufficiently rewarded at current levels.

Bobby Bureau, MBA, CIM[®]

Senior Manager, Fixed Income
Portfolio Manager

CANADIAN AND QUEBEC EQUITIES

In a challenging Canadian market, our Canadian equity fund rose slightly in the second quarter of 2024, and by 5% year-to-date in 2024 (before fees). The key sectors driving this performance were Consumer Discretionary (+35.3% in absolute terms for the quarter, mainly due to the Park Lawn privatization), Basic Materials (+4.5%) and Utilities (+4%).

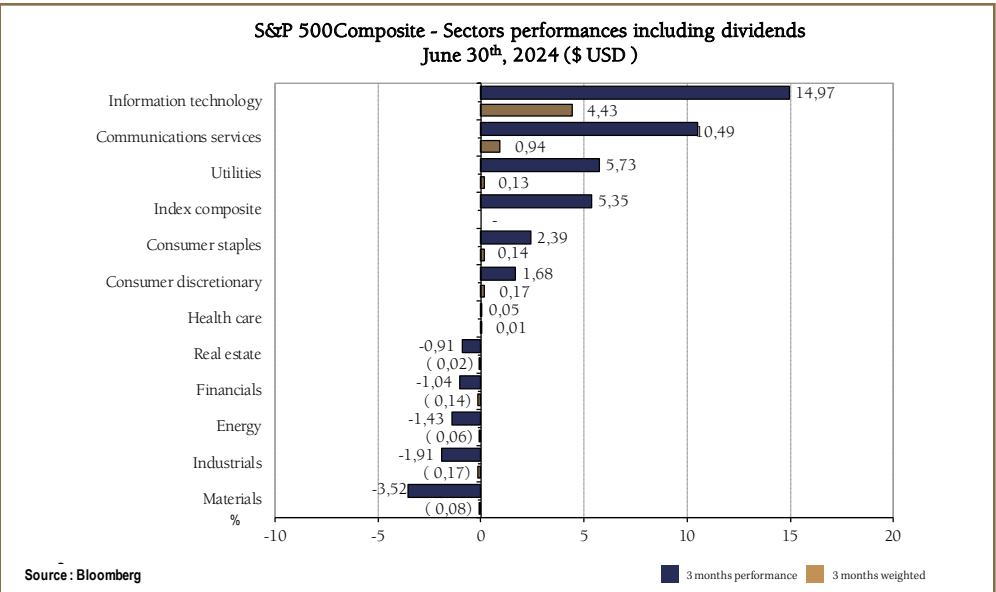
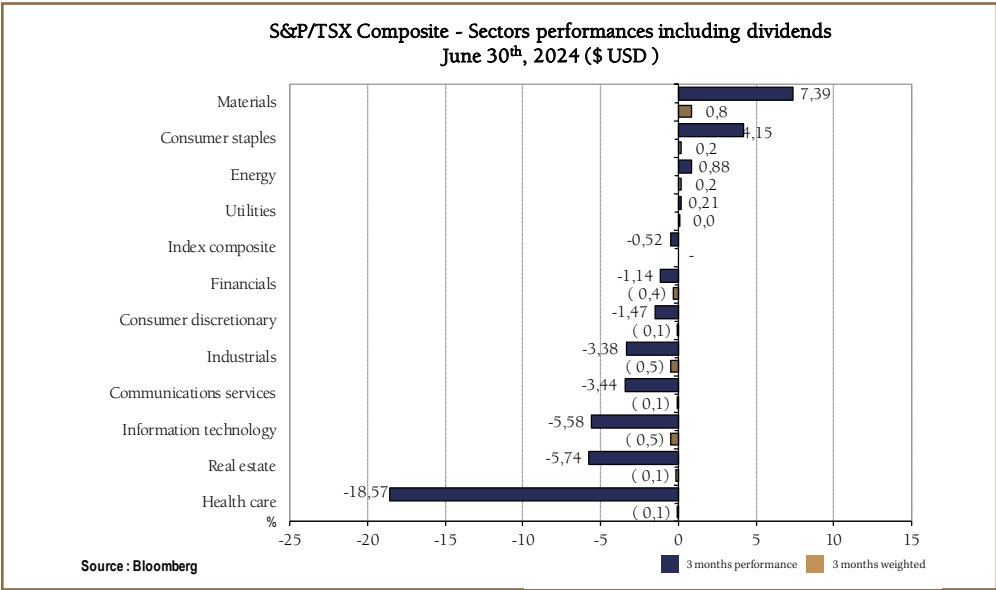
We made a number of transactions during the quarter to better align the Fund with Canadian equities. We acquired a position in Franco-Nevada, a company with exposure to the gold and precious metals sector through a diversified portfolio of royalties and fees.

The stock replaces our position in Wheaton Precious Metals, since we believe that Franco-Nevada will be capable of providing us with optionality on copper (Panama) and oil and gas (23% of assets) with its more diversified asset portfolio. We trimmed our underweight in energy, in view of global geopolitical instability, by initiating a position in Veren, an oil and gas producer that operates in two of Canada’s most prolific regions (Montney and Duvernay). We shifted our positioning in the oil pipeline sector by introducing Pembina to the portfolio to replace Enbridge. Pembina’s dividend yield is slightly lower (5.4% vs. 7.5% for Enbridge), but has a superior growth profile and, more importantly, a much

healthier debt level. After the release of Open Text’s results and the strategic management change, we liquidated the position to introduce Kinaxis into the portfolio, a supply chain management software company with clients that include some of the world’s largest companies. We foresee considerable growth potential for Kinaxis in the coming years, as well as increasing profitability. In view of difficulties faced by the major Canadian banks, we initiated a position in EQB, Canada’s 7th largest bank. EQB is outperforming all other Canadian banks in terms of growth, but trades at a fraction of its valuation. We decreased our weighting in TD, which is facing a number of legal issues in the U.S. which limit its growth potential and increase its operational risk.

Our Quebec equity strategy has continued to deliver a strong performance, propelled by industrials (Bombardier, Héroux-Devtek), utilities (Boralex, Innergex) and materials (5N Plus), with a gross return of +3.5% for the second quarter and +11.1% for the year to date. Compared to the Canadian market, our Quebec equity strategy finished the quarter with a relative contribution nearly 4% above the Canadian index. On a year-to-date basis, the Quebec Equity strategy outperformed the S&P/TSX index by more than 5% (before fees).

The Small Cap Fund gained 4.6% over the quarter and is up 10.9% year-to-date (before fees). The strategy benefited from Park Lawn’s privatization, a major weighting in the portfolio, and by the strong gains in 5N Plus and Bombardier, two of the fund’s largest holdings.



Philippe Côté, M.Sc., CFA
Vice-President and Senior Equity Manager Canadian and Québec equities

GLOBAL, INTERNATIONAL AND U.S. EQUITIES

Over the last quarter, U.S., global and international equities performed remarkably well. Global equities rose approximately 4% to 5%, boosted primarily by rising corporate earnings and a stable economy in terms of growth and inflation. Economic stability maintained investor optimism.

A determining factor in this overall performance was the boom in artificial intelligence. AI has catapulted many large companies to new heights, creating strong demand for electricity. This in turn benefited companies committed to extending power grids, thereby contributing to their growth. Our strategies delivered positive returns over the quarter and closed with returns close to their benchmarks. The relative gains of the first two months of the quarter were erased in June. The surprise election in France, favouring the Rassemblement National, had an adverse impact, as did President Biden's poor performance in the debates, which adversely affected electrification-related industrial stocks.

To adapt to these dynamics, we have made significant adjustments to our portfolios:

Sales:

Archer Daniels Midland: Sold due to financial controversy.

AMN Healthcare: Position eliminated in response to the slowdown in the U.S. labour market.

Panasonic: Sold due to increased competition from Chinese electric cars.

Umicore: Divested due to challenges in battery recycling.

Neste: Position eliminated, as it did not profit from rising energy prices.

Purchases:

Oracle: Added to benefit from the growth in artificial intelligence.

Novo Nordisk: Reinforced position to align returns with benchmarks.

Walmex and Orbia: Added to the Mexican portfolio after their post-election pullback.

Valmont Industries: Added to take advantage of growth in the U.S. power grid.

Commercial Metals and Steel Dynamics: Positions reinforced on temporary market weakness.

Future positioning: With these adjustments and our regional overweights in Japan, France, Sweden and Mexico, our portfolios are well positioned to leverage the growing importance of electricity in the global economy.

In summary, in spite of one-off challenges such as political uncertainties and fluctuating commodity prices, our adjusted strategies aim to take full advantage of the ongoing rise of artificial intelligence and the significant growth of electricity in the economy.

Nordis Capital

Manager of Eterna global, U.S. and international funds

STATISTICS ON JUNE 30TH, 2024

CANADA			UNITED STATES			CURRENCIES		
Unemploy. rate (May)	6,2 %	↑	Unemploy. rate (May)	4,0 %	↑	\$ USA / \$ CAN	0,73	↑
C.P.I. (May)	2,9 %	↑	C.P.I. (May)	3,3 %	↓	\$ USA / € Euro	1,07	↑
3 months treasury bills	4,66 %	↓	3 months treasury bills	5,35 %	↓	¥ Yen / \$ USA	160,88	↓
Bonds 5 years	3,51 %	↓	Bonds 5 years	4,38 %	↓			
Bonds 10 years	3,50 %	↓	Bonds 10 years	4,40 %	↓			
S&P/TSX	21 876	↓	Dow Jones - Industrial	39 119	↑			
			S&P 500	5 460	↑			

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 JUNE 30TH, 2024

	3 months	6 months	1 year	3 years*	5 years*
FTSE Canada 91 Day TBill Index	1,30%	2,55%	5,13%	3,06%	2,18%
BONDS					
FTSE Canada Universe Bond Index	0,86%	-0,38%	3,69%	-1,78%	-0,05%
FTSE Canada Short Term Overall Bond Index	1,24%	1,57%	5,61%	0,64%	1,40%
Indice adapté gestion privée Eterna ¹	1,08%	0,82%	4,95%	-0,24%	0,98%
FTSE Canada Mid Term Overall Bond Index	0,83%	-0,30%	3,89%	-1,62%	0,30%
FTSE Canada Long Term Overall Bond Index	0,22%	-3,39%	0,38%	-5,15%	-2,32%
NORTH AMERICA STOCK MARKETS \$ CAN					
Canada - S&P/TSX	-0,53%	6,05%	12,13%	5,98%	9,28%
United States - Standard & Poor's 500	5,35%	19,38%	28,76%	13,64%	16,05%
United States - Dow Jones	-0,26%	8,50%	19,93%	9,93%	11,29%
INTERNATIONAL STOCK MARKETS \$ CAN					
United Kingdom - FTSE-100	4,95%	10,65%	15,92%	9,54%	6,62%
France - CAC-40	-8,61%	-0,56%	2,55%	4,63%	5,88%
Germany - DAX	-1,12%	9,17%	14,58%	5,38%	7,70%
Japan - Nikkei-225	-6,85%	7,24%	10,62%	1,53%	5,44%
Hong Kong - Hang Seng	8,45%	7,64%	-2,83%	-12,34%	-8,30%
Australia - S&P/ASX 200	1,74%	3,46%	11,55%	1,38%	3,13%
CURRENCY					
USD versus CAD	1,03%	3,29%	3,30%	3,33%	0,88%

* 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