

ASSET SUMMARY AND ALLOCATION

Since our last monthly review in July, the calendar has been packed with events and volatility on the financial markets has increased. While the U.S. economy continues to grow at a healthy pace, economic figures are more disappointing than expected. The main scenario anticipated by forecasters remains a soft economic landing. So it is not surprising to see financial market setbacks if economic growth is slower than it appears. Indeed, investors reacted strongly to disappointing employment data in July, triggering a brief stock market correction. However, the bearish periods of recent months are temporary; optimism that central banks will succeed

in averting a recession by cutting interest rates overrides concerns about a slowing economy. We believe that this recent rise in volatility could persist for some time, as valuations remain high and central bank rate cuts will have delayed benefits.

In the U.S., the stock market remained generous, with the S&P 500 index posting a quarterly gain of 5.9% in local currency. Canada's S&P TSX was more robust, returning 10.5%. Moreover, the quarterly performances of Europe's main stock market indices continued to vary by region: 0.9% for the FTSE 100 (UK), 2.1% for the CAC 40 (France) and 6% for the DAX 30 (Germany). The Chinese stock market finished the quarter with

a strong rebound following multiple economic stimulus announcements, with the Shanghai Se index generating a 12.4% gain.

The Bank of Canada continued to cut its key rate, interest rates continued to fall across the yield curve, resulting in third-quarter returns of 4.7% for the FTSE Canada Universe Bond Index.

In terms of asset allocation, we are generally slightly underweight in equities compared to our long-term neutral positioning. We favour redeploying these assets towards alternative products which are not subject to stock market volatility and which provide us with regular income.

- **Volatility has increased** on financial markets, but the downturns we have seen remain **temporary**.
- **The labour market is softening but remains healthy**; high immigration accounts for much of the rise in unemployment, and it is only normal to expect a slowdown from the frantic pace of hiring since the end of the pandemic.
- In Canada, **lower immigration** and **mortgage renewals** will exert **downward pressure on economic growth**.
- The Canadian economy is **more vulnerable** than in the U.S.; sensitivity to interest rates.
- **Monetary easing** has only just **begun**, and we should not be surprised to see sharper declines (0.50%).

ECONOMY AND FIXED INCOME SECURITIES

The third quarter saw two events of particular note: the onset of U.S. monetary policy easing, and the slowdown in the job market. These two factors had both positive and negative impacts on the stock markets and will be important issues for the remainder of the year.

The Bank of Canada announced three consecutive 0.25% cuts to its key interest rate; the financial markets fully anticipated these decisions. The central bank governor

made it clear that the weak Canadian economy justified these actions, and a more aggressive 0.50% cut was possible in the current economic climate. Over the next year, slowing immigration and higher mortgage renewals will continue to put the brakes on the Canadian economy. It is interesting to note that, over the past few months, we have observed a cautious attitude among Canadian households, resulting in an increased savings rate. As we have mentioned several times, we are one

of the world's most indebted populations. This increased savings rate could eventually mitigate the impact of the mortgage renewal shock. It is always important to recognize that the Bank of Canada's rate cuts have a positive impact on variable-rate mortgages. However, a cut in the key rate is unlikely to affect fixed-rate mortgages, which are influenced more by government bond rates. Over the next year, we believe that subsiding inflationary pressures and rising unemployment will justify further

cuts in the key rate. Currently, forecasters expect a policy rate of 3.5% at the end of 2024.

In the U.S., as expected, the U.S. Federal Reserve was more patient before starting its rate-cutting cycle, making only one cut to its key rate, a more aggressive 0.50%. The U.S. economy does not face the same challenges as Canada. Economic growth and business investment are stronger, households have lower debt and productivity is better. However, it appears that their labour market is seeing a slowdown, which is a growing concern for the American Central Bank. Three main factors are behind this slowdown. Firstly, July's employment figures showed rising unemployment from 0.2% to 4.3%, triggering the Sahm rule. This indicator states that historically, when the three-month average unemployment rate rises by 0.5 percentage points above its twelve-

month low, a recession is about to begin. This increase in the unemployment rate has unsettled the financial markets and explains the declines seen on the stock market in early August. However, it is important to bear in mind that this time, the rise in unemployment is not a result of mass lay-offs, but is due to immigration. Secondly, the household survey indicates a drop in full-time employment over the past 12 months and increased numbers of people forced to work part-time for economic reasons. And thirdly, a preliminary review of job creation from March 2023 to March 2024 showed that job creation was overstated by 818,000 jobs. There is no doubt these three factors point to a slowdown. Nevertheless, in general, the employment data remain healthy and it is normal to observe a slowdown from the frantic pace of hiring since the end of the pandemic; we should expect employment

figures to generate further volatility. As in Canada, monetary easing will continue over the coming months, and forecasters expect a rate of 4.15% by the end of 2024.

We also expect volatility in the bond market over the coming months. This time last year, the relaxation of monetary policy led to a sharp drop in interest rates; for example, Canadian 10-year yields fell from 4.2% to 3.1% in just three months. But expectations were too aggressive and rates rose rapidly in early 2024. Could the same situation happen again nine months later? We believe this is a feasible scenario, as current expected rate cuts are more aggressive than those of the voting members of the U.S. Federal Reserve.

Bobby Bureau, MBA, CIM[®]

Senior Manager, Fixed Income
Portfolio Manager

CANADIAN AND QUEBEC EQUITIES

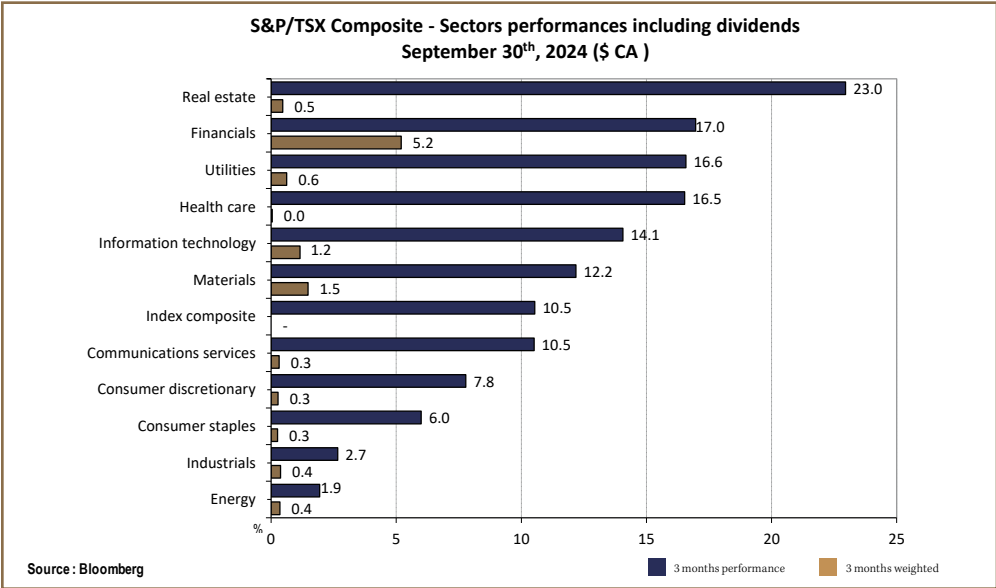
In Canada, the financial services sector dominated the third quarter of 2024. With the rate-cut cycle officially underway, the sector's stocks, which represent the largest weighting in the Canadian index with an average weighting of 32%, returned +17% for the quarter ending September 30, 2024. The banking subsector attracted special attention, as the release of their September results gave a tailwind to banking stocks. Banks all reported solid results for their Canadian

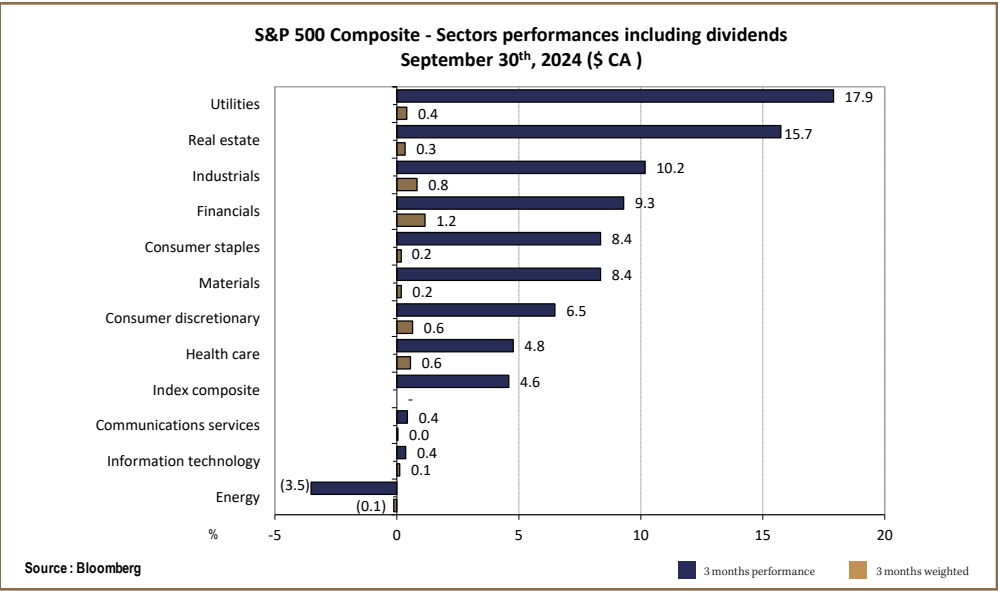
operations, which continue to exhibit a resilient market with limited loan write-offs. The main differentiator between Canadian banks came from their U.S. operations, as BMO posted a 3rd consecutive quarter of higher-than-expected loan write-offs in its American division. For its part, TD Bank took a US\$ 3 billion charge in anticipation of future penalties following a lack of control in detecting money-laundering activities in its U.S. division. The official statement of the

total monetary penalties and other impacts on its activities is expected by the end of the year. The Bank of Nova Scotia, meanwhile, has initiated an important strategic change by acquiring a 15% stake in a U.S. bank, KeyBank, a first move into that country for the institution, which is also said to be considering the sale of certain Latin American assets, which have traditionally formed the bulk of its strategy outside Canada.

Meanwhile, National Bank continues its Canadian expansion by announcing an offer to acquire Canadian Western Bank, a commercial lending bank with a solid presence in Western Canada. While the purchase price will be at a high valuation multiple, and the bank had to issue shares to ensure sufficient capital, there are many synergies and growth opportunities for National Bank with this acquisition. Royal Bank, with Canada's highest market capitalization at \$237 billion, has continued its steady and unsurprising progress, enjoying good results in Canada following its acquisition of HSBC Canada.

The real estate sector also rebounded, in line with the rate cuts, with a 22% return for the Canadian index in this under-represented





sector (average index weight of 2.2%). We were well positioned for this recovery, with holdings in Canadian Apartment Properties REIT and Colliers International as well as Brookfield Corp, an asset manager with a strong presence in the real estate sector.

Both small-cap and Quebec equities delivered a strong quarter, with several common stocks leading the charge for both strategies. Héroux-Devtek, which received a privatization offer, was up +110% year-to-date at the end of September, while Bombardier and 5N Plus were strong contributors to returns for the quarter and year.

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, global stock markets enjoyed robust growth, rising by approximately 5%. This performance was underpinned by a favourable macroeconomic environment, with stable economic growth and controlled inflation. Central banks, including the Federal Reserve and European Central Bank, introduced rate cuts as inflation approached their 2% target, boosting investor confidence.

A number of significant macroeconomic events shaped the quarter, including the exit of President Joe Biden from the U.S. presidential race in favour of Vice President Kamala Harris, adding new dynamics to the race.

Meanwhile, Chinese equities rallied strongly at the end of September after President Xi Jinping’s remarks were interpreted as a commitment similar to Mario Draghi’s famous “Whatever it takes,” pledge during the 2012 European debt crisis. These latest statements imply that the government could adopt targeted taxation measures to bolster struggling sectors and stimulate growth. This is particularly important as the Chinese economy faces headwinds from both domestic policy changes and global economic pressures.

From the portfolio management perspective, our investment strategies delivered solid returns, aligning closely with benchmark indices. Portfolios rebounded well in the final month of the quarter, after slightly underperforming in

July and August. Small energy efficiency companies, such as Alstom, Ameresco, Carrier Global, Comfort Systems and Nexans, performed exceptionally well as the likelihood of Donald Trump’s re-election receded. Duolingo and Oracle also posted significant gains. By contrast, former leaders such as ASML, Intel and Novo Nordisk suffered setbacks after earlier rallies.

As we look ahead, the portfolio is well positioned to continue generating positive returns in a variety of economic conditions, thanks to its balanced exposure.

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

STATISTICS ON SEPTEMBER 30TH, 2024

CANADA			UNITED STATES			CURRENCIES		
Unemploy. rate (August)	6,6 %	↑	Unemploy. rate (August)	4,2 %	↓	\$ USA / \$ CAN	0,74	↑
C.P.I. (August)	2,0 %	↓	C.P.I. (August)	2,5 %	↓	\$ USA / € Euro	1,11	↓
3 months treasury bills	4,22 %	↑	3 months treasury bills	4,62 %	↓	¥ Yen / \$ USA	143,63	↑
Bonds 5 years	2,74 %	↓	Bonds 5 years	3,56 %	↓			
Bonds 10 years	2,96 %	↓	Bonds 10 years	3,78 %	↓			
S&P/TSX	24 000	↑	Dow Jones - Industrial	42 330	↑			
			S&P 500	5 762	↑			

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, 2024

	3 months	6 months	1 year	3 years*	5 years*
FTSE Canada 91 Day TBill Index	1,22%	2,53%	5,13%	3,45%	2,34%
BONDS					
FTSE Canada Universe Bond Index	4,66%	5,56%	12,89%	-0,10%	0,63%
FTSE Canada Short Term Overall Bond Index	3,39%	4,68%	9,33%	1,74%	2,02%
Indice adapté gestion privée Eterna ¹	4,19%	5,32%	11,10%	1,12%	1,71%
FTSE Canada Mid Term Overall Bond Index	5,40%	6,27%	13,76%	0,13%	1,17%
FTSE Canada Long Term Overall Bond Index	5,75%	5,98%	17,30%	-2,85%	-1,71%
NORTH AMERICA STOCK MARKETS \$ CAN					
Canada - S&P/TSX	10,54%	9,96%	26,74%	9,52%	10,95%
United States - Standard & Poor's 500	4,59%	10,18%	35,97%	14,28%	16,44%
United States - Dow Jones	7,39%	7,11%	28,49%	12,29%	12,23%
INTERNATIONAL STOCK MARKETS \$ CAN					
United Kingdom - FTSE-100	6,62%	11,90%	23,06%	11,29%	8,24%
France - CAC-40	4,90%	-4,13%	12,47%	6,30%	7,00%
Germany - DAX	8,89%	7,67%	31,99%	9,11%	10,15%
Japan - Nikkei-225	6,34%	-0,94%	23,91%	2,19%	6,08%
Hong Kong - Hang Seng	18,41%	28,41%	19,26%	-2,83%	-3,57%
Australia - S&P/ASX 200	9,34%	11,24%	26,04%	4,93%	5,34%
CURRENCY					
USD versus CAD	-1,13%	-0,11%	-0,38%	2,17%	0,43%

* 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